RENEWING CO-OPERATIVE DEVELOPMENT IN NEWFOUNDLAND

A GOVERNMENT STUDY OF STRATEGIES FOR CO-OPERATIVE DEVELOPMENT IN NEWFOUNDLAND AND LABRADOR

Co-sponsored by
The Department Of Rural, Agricultural And Northern Development,
The Department of Regional Industrial Expansion
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FINAL REPORT

June 6, 1986

The Canada Consulting Group Inc.

SUMMARY:
RENEWING COOPERATIVE DEVELOPMENT IN NEWFOUNDLAND

1. Government should continue to increase its support of cooperative development in Newfoundland

   . The cooperative sector is growing and healthy
   - Increasing membership and contribution to economy
   - Above average profitabilty and highest growth rate
   - Large share of employment compared with rest of Canada
   - Potential for further growth, especially credit unions

   . The nature of cooperatives is consistent with government development objectives
   - Community-based model driven by community initiative
   - Can be applied in many ways to deliver consumption, production and employment benefits
   - Must address and overcome impediments
   - Three dimensional strength: business, membership, community
   - Limitations suggest some constraints on suitability
   - Flexible application in both less and more attractive industries

   . Government support has been important to cooperative development
   - Government support small in dollar terms
   - Extremely important to development, directly and indirectly
   - Concerns regarding overdependence not persuasive
   - Government assistance effective in encouraging growth

SUMMARY:
RENEWING COOPERATIVE DEVELOPMENT IN NEWFOUNDLAND

2. Cooperative Development strategy must be better focussed with clearly defined roles and realistic priorities

   . A guiding philosophy must set the stage for more specific elements of strategy

   . The coop model should be more actively promoted in both business and commmunity projects with either production or consumption orientations

   . Growth will be constrained by desires for quality and scarce resources

   . Key capabilities must span three important areas
     - Regulation
     - Development (Process Enhancement, Feasibility Support, Technical Resource, Financing)
     - Maintenance

   . Business Unit roles should reflect capabilities and interests, in order to achieve desired focus and depth of effort
     - Coop Division: Regulation, Feasibility Support (Coops), Financing
     - NLFC and CUCN: Process Enhancement, Feasibility Support (Credit Unions), Technical Resource, Maintenance, Financing
     - Stab Fund: Regulation (Monitoring and Approvals)

SUMMARY:
RENEWING COOPERATIVE DEVELOPMENT IN NEWFOUNDLAND

3. The success of the coop development strategy will depend on strong collective commitment to its implementation

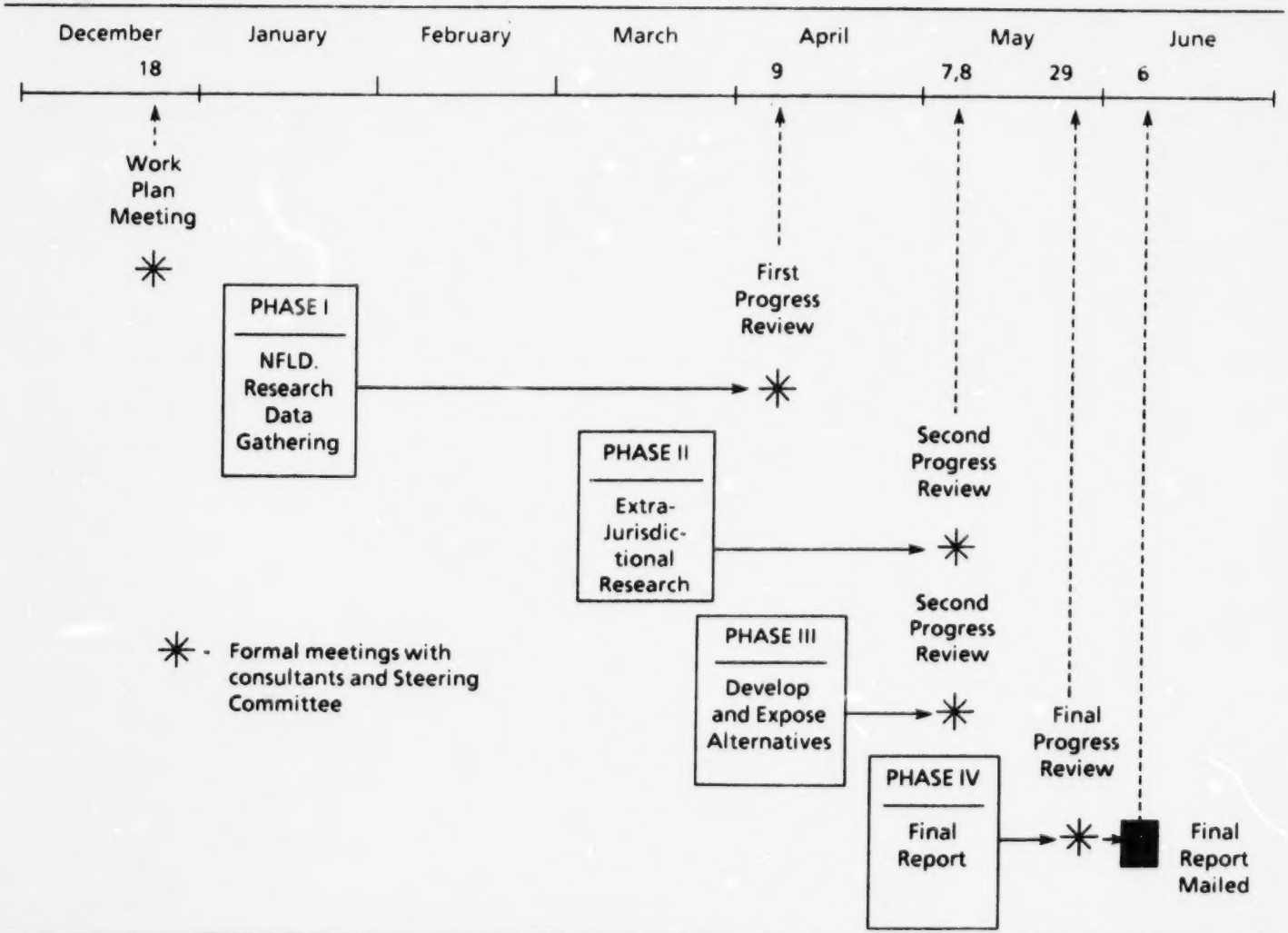
   . Resource allocation choices are key to implementation success
   - Cost of coop system should be shared by government and movement
   - Government should fund three new positions to get ball rolling
   - NLFC and CUCN should ensure fees cover maintenance costs
   - CUCN and NLFC should forget fee legislation and focus on improving quality of maintenance services
   - Set up Coop Development Fund with Fur Farmers' proceeds
   - Unambiguous successes are key for continued and increased government support

   . Changing the Coop Division structure and reinvigorating the overall coop support network are key organizational requirements
   - Coop division should be separated into regulatory and development teams
   - Overall support network should remain highly interdependent
   - Movement should activate existing large network
   - Credit union movement should investigate a liquidity pol

   . In the end, making strategy work depends on collective determination, management skills and leadership
   - Next steps are key to a coordinated implementation program
   - Stronger leadership and ongoing coordination are essential to reach full potential

This report presents the key findings and conclusions arising from our study, and recommends a comprehensive cooperative development strategy and program of implementation for both government and the cooperative movement in Newfoundland

THIS SIX MONTH PROJECT HAS BEEN GUIDED BY THE STEERING COMMITTEE THROUGH EACH OF ITS FOUR ACTIVITY PHASES



THE STUDY'S CONSIDERABLE STATISTICAL DATA BASE AND EXTENSIVE INTERVIEW PROGRAM IS DOCUMENTED IN PRECEDING COMPANION DOCUMENTS TO THIS FINAL REPORT

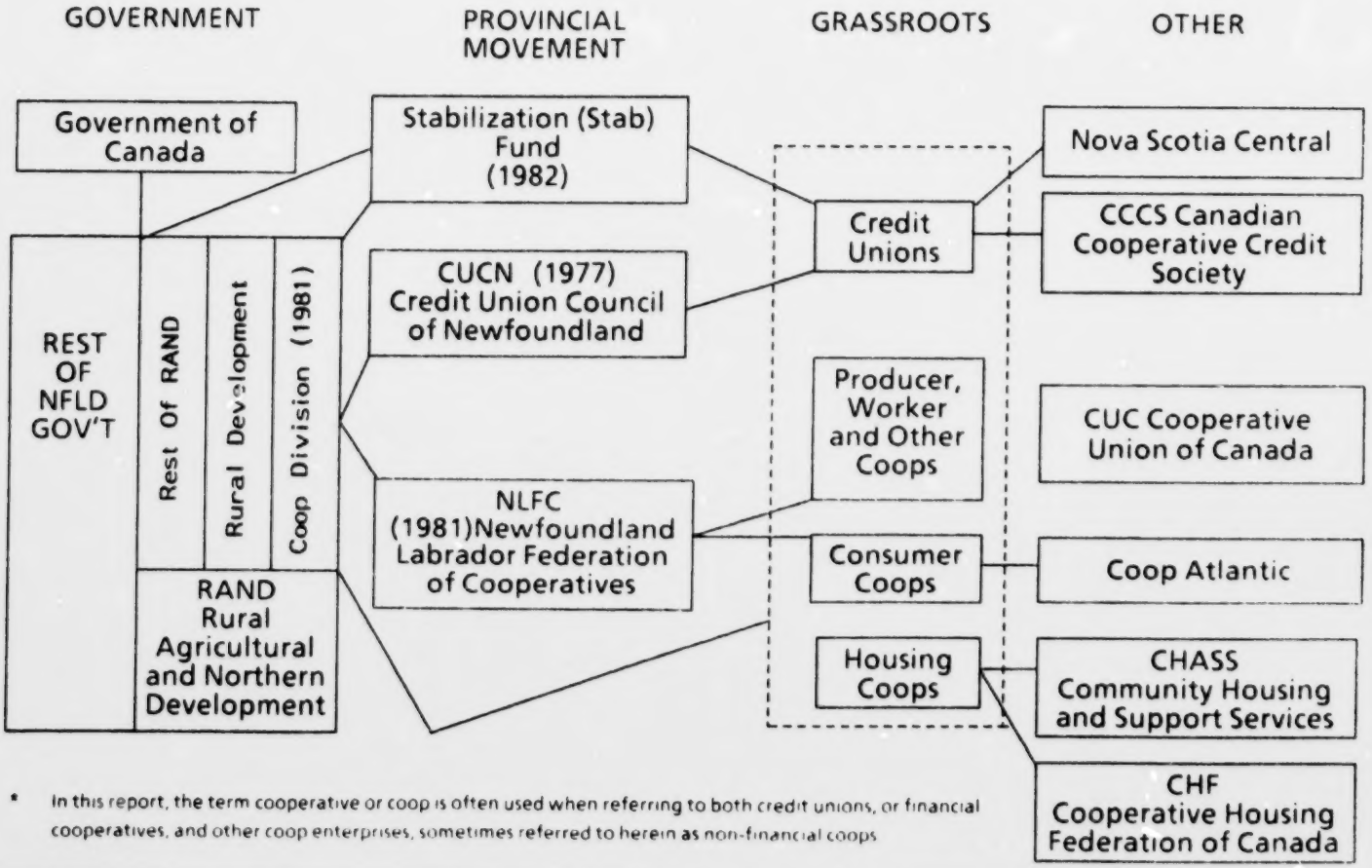
COOP DEVELOPMENT STRATEGY PROJECT

Interim Outputs

. Draft Work Plan	December 18, 1985
. First Progress Review	April 9, 1986
. Addendum to First Progress Review	April 9, 1986
. Discussion Paper - Second Progress Review	May 7 and 8, 1986
. Phase II: Extra-Jurisdictional Investigation	May 7 and 8, 1986
. Thinking About a Provincial Central Liquidity Pool	May 8, 1986
. Where You Stand: Highlights	May, 1986

THE STUDY HAS ADOPTED A PROVINCE-WIDE PERSPECTIVE ON THE DYNAMICS OF COOPERATIVE DEVELOPMENT IN NEWFOUNDLAND

CAST OF ORGANIZATIONS INVOLVED IN COOPERATIVE* ACTIVITY IN NEWFOUNDLAND



* In this report, the term cooperative or coop is often used when referring to both credit unions, or financial cooperatives, and other coop enterprises, sometimes referred to herein as non-financial coops

THROUGHOUT THE PROJECT, AND IN THIS FINAL REPORT, WE HAVE FOLLOWED THE CANADA CONSULTING STRATEGIC PLANNING MODEL

STRATEGIC PLANNING FRAMEWORK

THE FINAL REPORT HAS THREE CHAPTERS

I. GOVERNMENT SHOULD CONTINUE TO INCREASE ITS SUPPORT OF COOPERATIVE DEVELOPMENT IN NEWFOUNDLAND

II. COOPERATIVE DEVELOPMENT STRATEGY MUST BE BETTER FOCUSED WITH CLEARLY DEFINED ROLES AND REALISTIC PRIORITIES

III. THE SUCCESS OF THE COOP DEVELOPMENT STRATEGY WILL DEPEND ON THE QUALITY OF AND COLLECTIVE COMMITMENT TO ITS IMPLEMENTATION

I. GOVERNMENT SHOULD CONTINUE TO INCREASE ITS SUPPORT OF COOPERATIVE DEVELOPMENT IN NEWFOUNDLAND

1. The cooperative sector in Newfoundland is growing and healthy

2. The nature of cooperatives is consistent with government development objectives in Newfoundland

3. Government support has been important to cooperative development

4. Across Canada, other provinces have chosen different ways to organize and respond to the regulation and development needs of their cooperative sectors

1. THE COOPERATIVE SECTOR IN NEWFOUNDLAND IS GROWING AND HEALTHY

Cooperative membership is increasing, as are the sectors' share of economic activity and contribution to the provincial economy

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Consumer coops and credit unions in N foundland have achieved above average profitability while maintaining the high growth rate in Canada

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Non-financial cooperatives in Newfoundland, dominated by consumer coops, account for an above-average share of provincial employment

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Comparative data also suggest considerable potential for further growth, especially for credit unions where Newfoundland has the most underdeveloped sector in Canada

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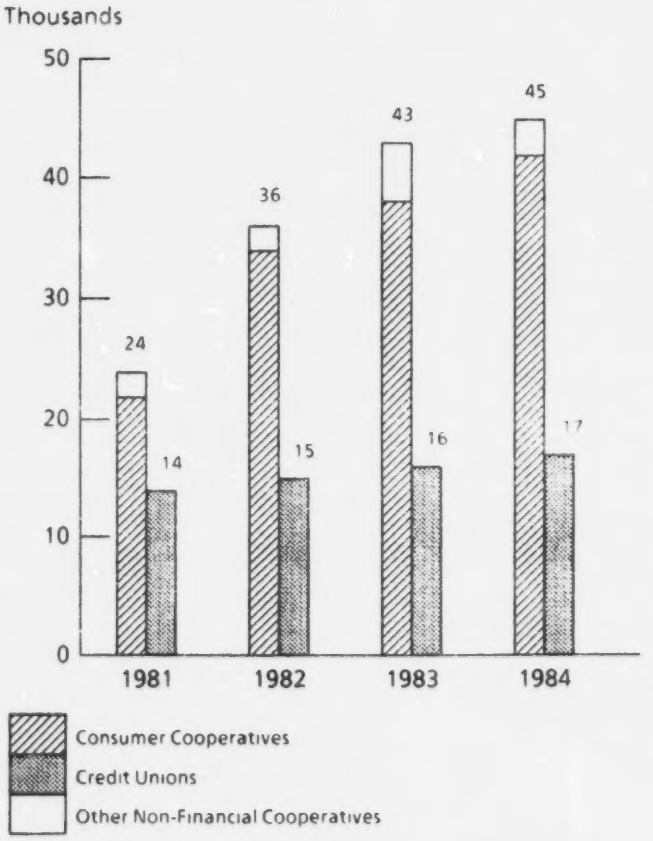
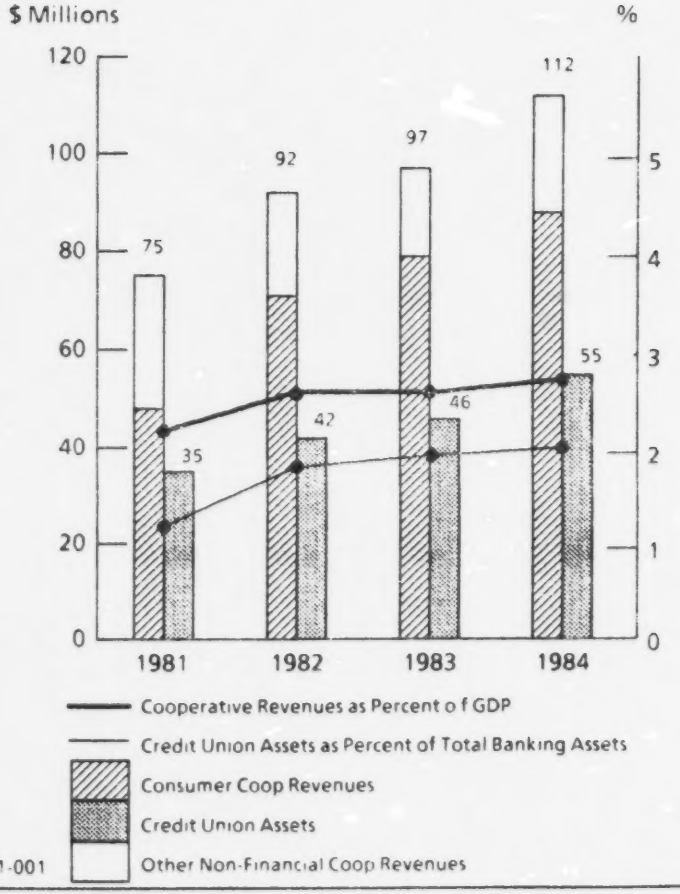
COOPERATIVE MEMBERSHIP IS INCREASING, AS ARE THE SECTORS' SHARE OF ECONOMIC ACTIVITY AND CONTRIBUTION TO THE PROVINCIAL ECONOMY

Membership In Cooperatives And Credit Unions



Cooperative Sector Share Of Provincial Economy

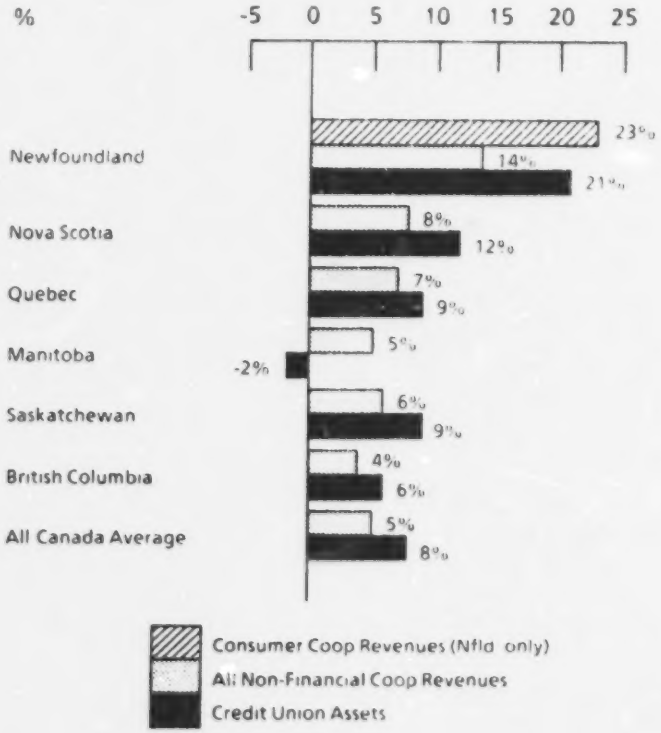


Source: Agriculture Canada - Cooperatives Section, RAND, Statistics Canada 71-001

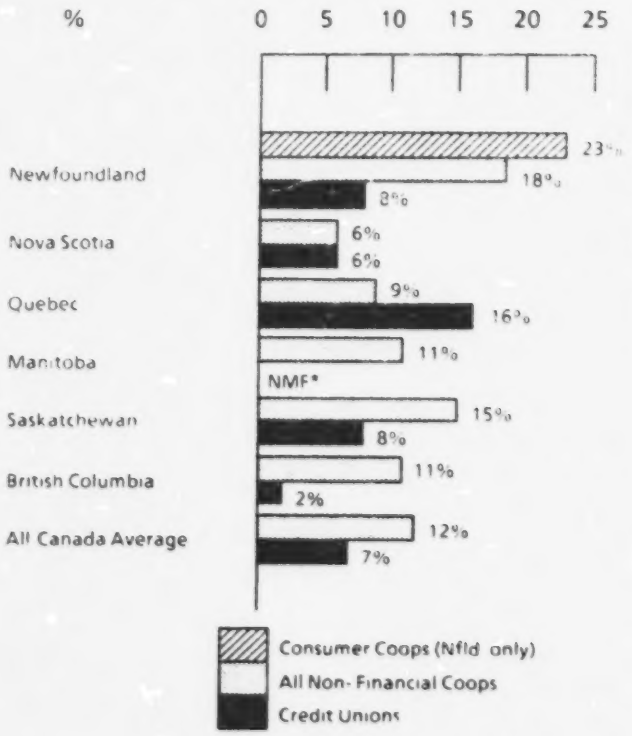
CONSUMER COOPS AND CREDIT UNIONS IN NEWFOUNDLAND HAVE ACHIEVED ABOVE AVERAGE PROFITABILITY WHILE MAINTAINING THE HIGHEST GROWTH RATE IN CANADA

NEWFOUNDLAND VERSUS THE REST OF CANADA

GROWTH OF COOPERATIVE SECTOR
Annual Compound Growth 1981-1984



PROFITABILITY OF COOPS AND CREDIT UNIONS
Return On Equity In 1984

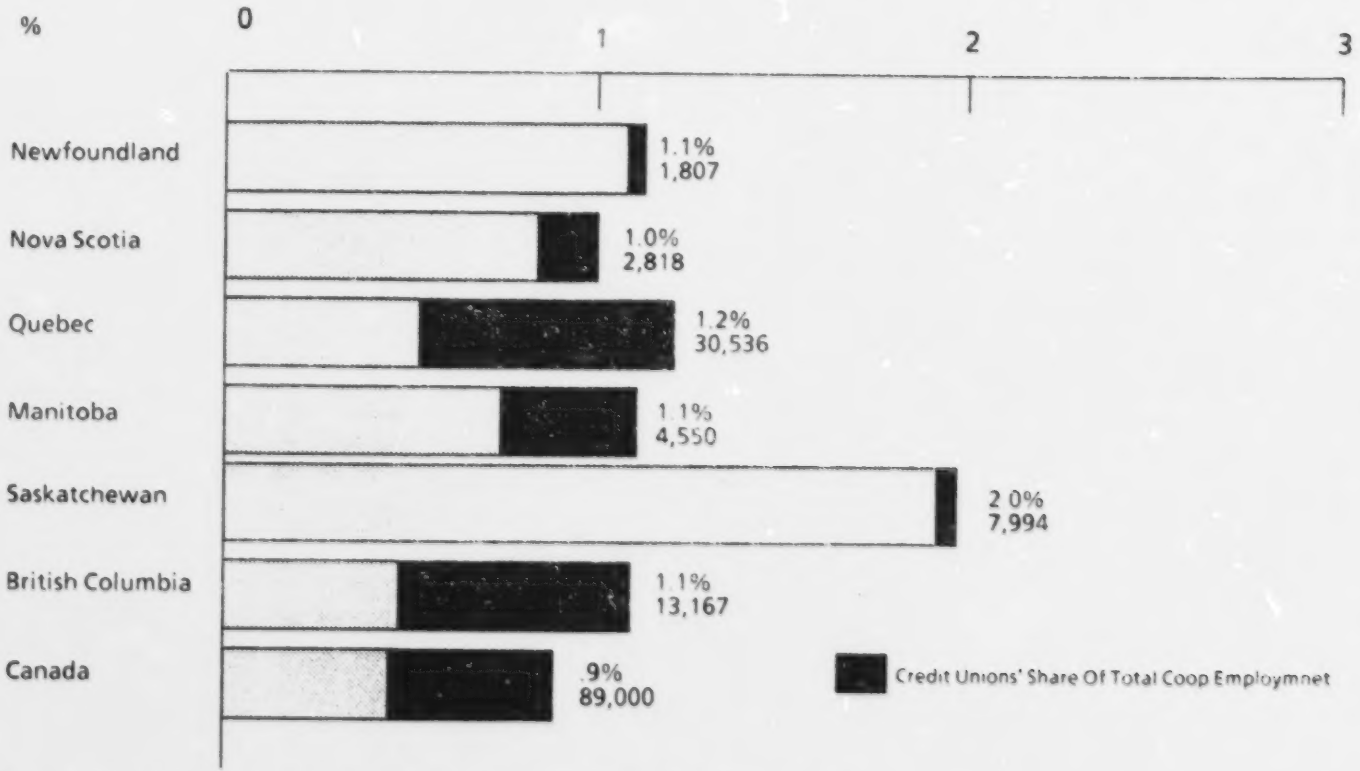


* Not meaningful

Source: Statistics Canada, Agriculture Canada - Cooperatives Section

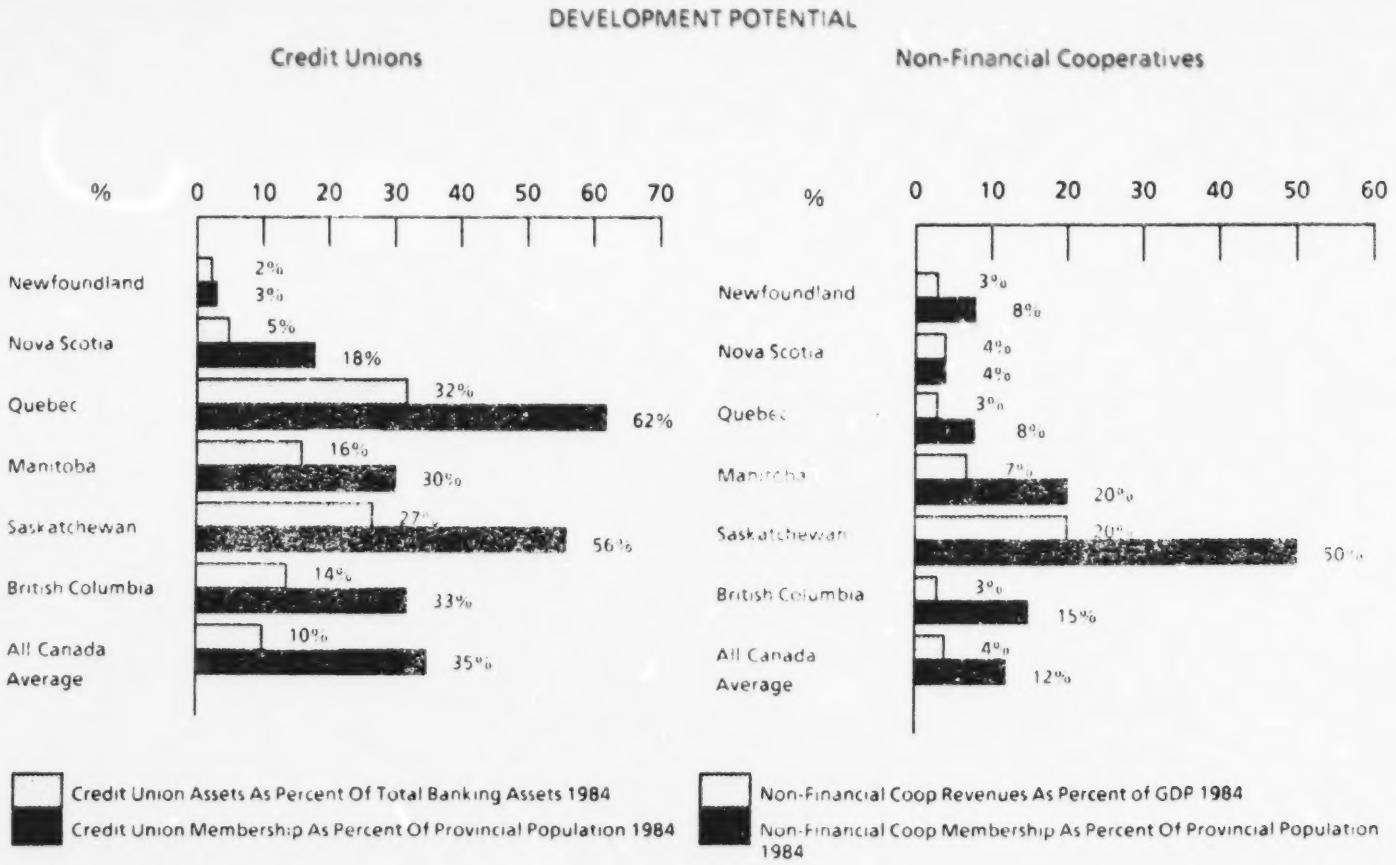
NON-FINANCIAL COOPERATIVES IN NEWFOUNDLAND, DOMINATED BY CONSUMER COOPS, ACCOUNT FOR AN ABOVE-AVERAGE SHARE OF PROVINCIAL EMPLOYMENT

COOPERATIVE SECTOR SHARE OF EMPLOYMENT IN 1984
Total Coop Employment As Percent Of Labour Force



Source: Statistics Canada 71-001, Agriculture Canada - Cooperatives Section, Provincial Centrals

COMPARATIVE DATA ALSO SUGGEST CONSIDERABLE POTENTIAL FOR FURTHER GROWTH, ESPECIALLY FOR CREDIT UNIONS WHERE NEWFOUNDLAND HAS THE MOST UNDERDEVELOPED SECTOR IN CANADA



Source: Agriculture Canada - Cooperatives Section, Statistics Canada 71 - 001

2. THE NATURE OF COOPERATIVES IS CONSISTENT WITH GOVERNMENT DEVELOPMENT OBJECTIVES IN NEWFOUNDLAND

Cooperative enterprise, a form of community-based development, allows the development process to be driven by community initiative

Cooperative enterprise can be applied in many ways to deliver consumption, production and employment benefits

To be sure, cooperatives must address and overcome certain impediments to the coop development process

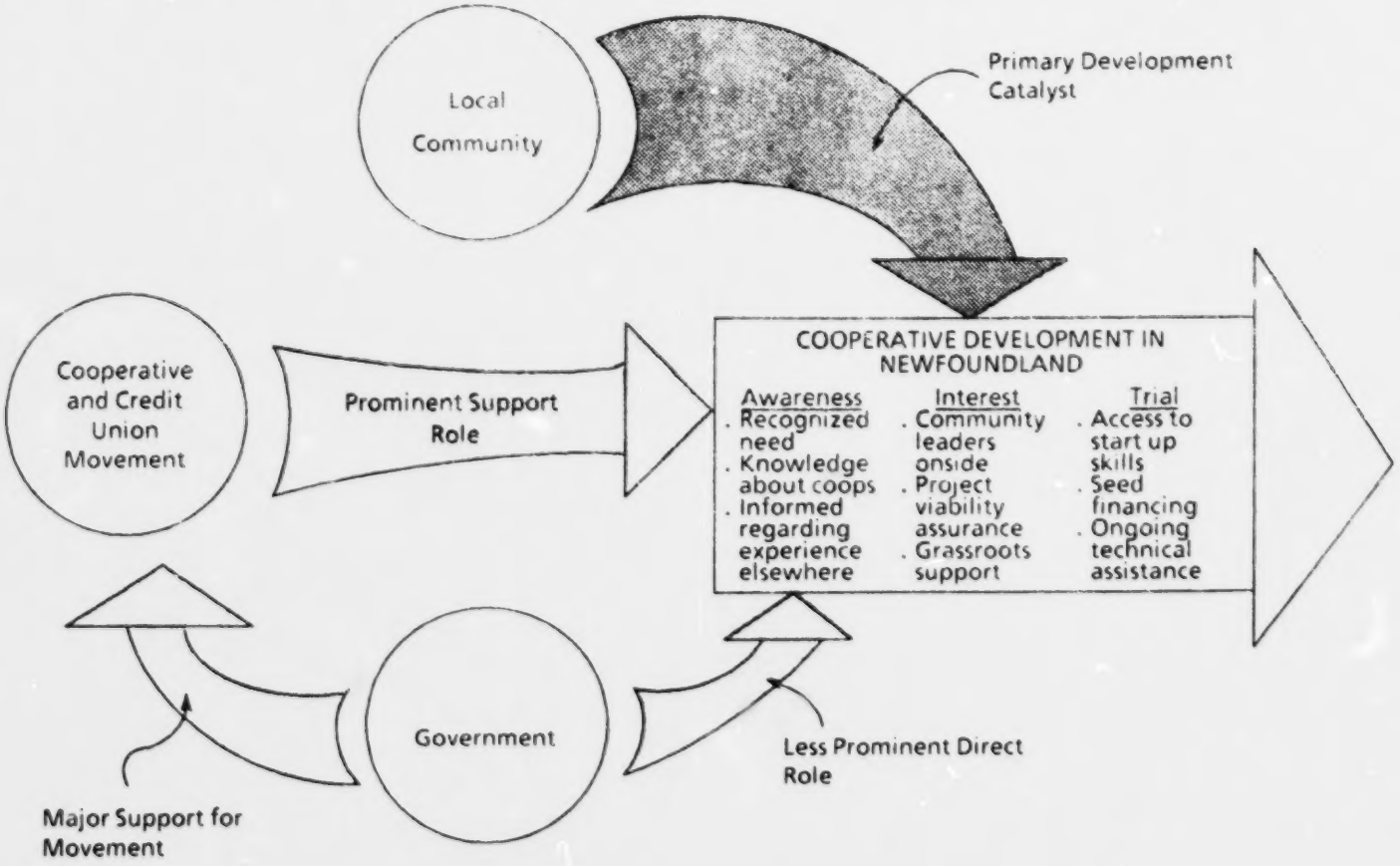
However, by differentiating coops along their three important dimensions, the unique development strengths of cooperative enterprise can be fully appreciated

That is not to say that coops are suitable for every development opportunity, for there are some potential limitations associated with the coop product

Nonetheless, coops are flexible enough to both carve out niches in less attractive industries and exploit opportunities in more attractive industries

COOPERATIVE ENTERPRISE, A FORM OF COMMUNITY-BASED DEVELOPMENT, ALLOWS THE DEVELOPMENT PROCESS TO BE DRIVEN BY COMMUNITY INITIATIVE

COOPERATIVE DEVELOPMENT IN NEWFOUNDLAND: THE GENERAL DESCRIPTIVE CASE

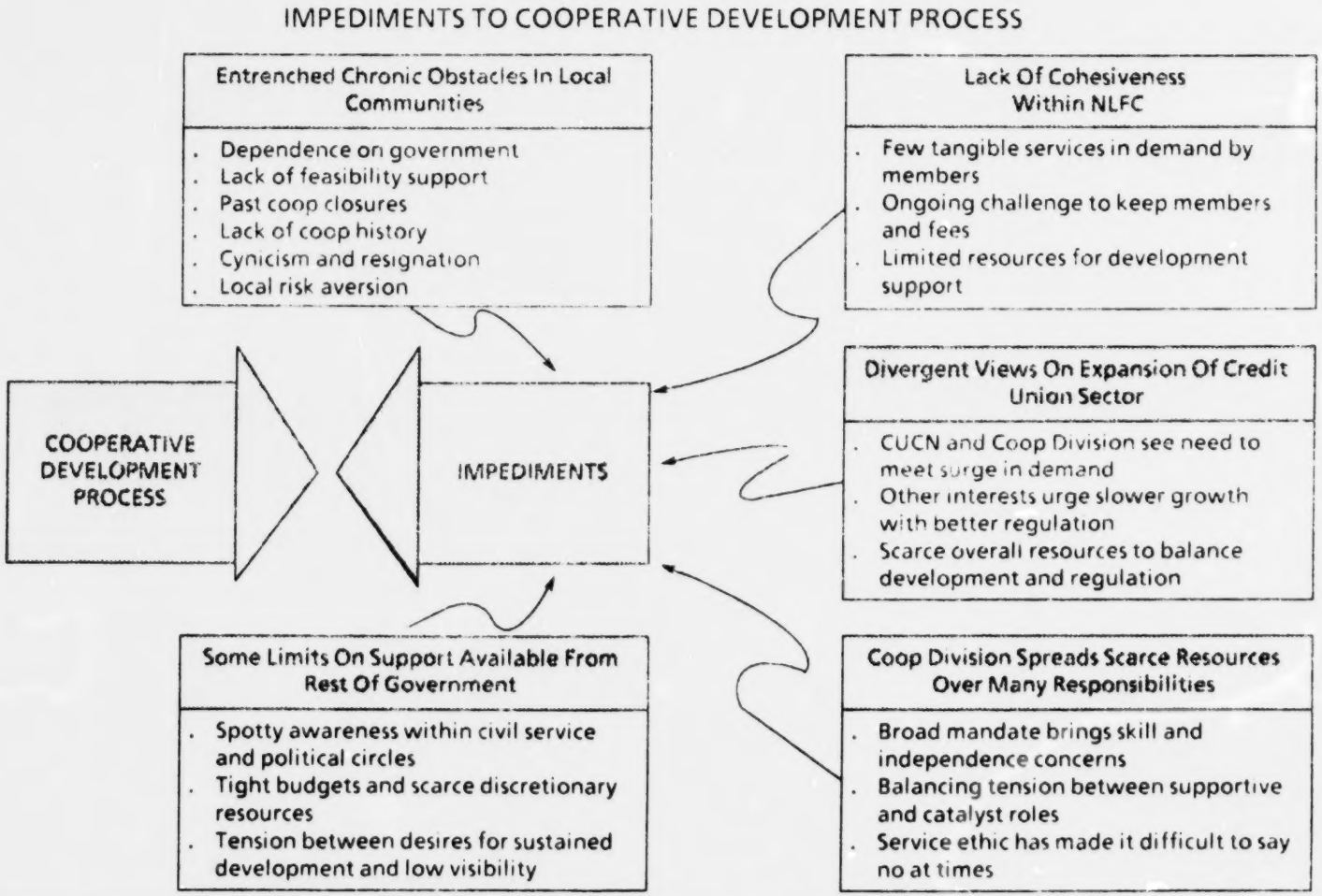


COOPERATIVE ENTERPRISE CAN BE APPLIED IN MANY WAYS TO DELIVER CONSUMPTION, PRODUCTION AND EMPLOYMENT BENEFITS

ECONOMIC BENEFITS OF COOPERATIVE ENTERPRISE

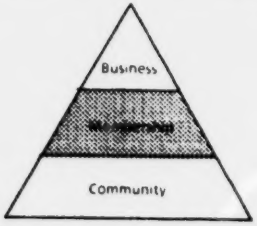
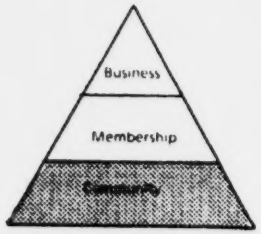
Consumption Oriented Benefits	Production Oriented Benefits	Employment	Broad Array Of Industry Applications
. Members see themselves as consumers	. Members see themselves as producers	. Employment benefits from both consumption and production oriented coops	. Cooperatives have been formed in many different industries across Canada
. Provide basic services and competition	. Generate value-added through production, combining inputs	. Employment may also be driving force behind formation of worker coop	. Many examples exist of innovation using the coop model (e.g., utility coops for remote communities in the west, forestry coops in Quebec)
. Examples include consumer coops, credit unions and housing coops	. Examples include fishery coops, dairy and wheat pools in other parts of Canada	. Examples of latter include fish processing, construction trades	. Development thinking should not be constrained by traditional areas of activity

TO BE SURE, COOPERATIVES MUST ADDRESS AND OVERCOME CERTAIN IMPEDIMENTS TO THE COOP DEVELOPMENT PROCESS


IMPEDIMENTS TO COOPERATIVE DEVELOPMENT PROCESS
Entrenched Chronic Obstacles In Local Communities
. Dependence on government
. Lack of feasibility support
. Past coop closures
. Lack of coop history
. Cynicism and resignation
. Local risk aversion
Lack Of Cohesiveness Within NLFC
. Few tangible services in demand by members
. Ongoing challenge to keep members and fees
. Limited resources for development support
COOPERATIVE DEVELOPMENT PROCESS
IMPEDIMENTS
Divergent Views On Expansion Of Credit Union Sector
. CUCN and Coop Division see need to meet surge in demand
. Other interests urge slower growth with better regulation
. Scarce overall resources to balance development and regulation
Some Limits On Support Available From Rest Of Government
. Spotty awareness within civil service and political circles
. Tight budgets and scarce discretionary resources
. Tension between desires for sustained development and low visibility
Coop Division Spreads Scarce Resources Over Many Responsibilities
. Broad mandate brings skill and independence concerns
. Balancing tension between supportive and catalyst roles
. Service ethic has made it difficult to say no at times

HOWEVER, BY DIFFERENTIATING COOPS ALONG THEIR THREE IMPORTANT DIMENSIONS, THE UNIQUE DEVELOPMENT STRENGTHS OF COOPERATIVE ENTERPRISE CAN BE FULLY APPRECIATED

COOPERATIVE ATTRIBUTES

Dimension	Attributes: "A Cooperative ... "
BUSINESS	• IS A BUSINESS LIKE ANY OTHER AND – is a vehicle for local capital formation, including a mechanism for access to government financing – has a motivational edge from member-patrons, especially in a worker cooperative – has some cost advantages through volunteerism
 MEMBERSHIP	• PROVIDES COMPETITIVE SERVICES TO MEMBERS AND – permits voluntary and open membership – has a democratic governance process – returns profits to members based on patronage, not investment – has an objective function that de-emphasizes profit maximization
 COMMUNITY	• CONTRIBUTES TO THE LOCAL ECONOMY AND – facilitates local control of and responsibility for that economic contribution (jobs, profits, re-investment, sustaining cyclical downturns, etc.) – retains profits locally for multiplier, spinoff benefits – can bring communities together – can allow cross-subsidization of social "good works" in the community

THAT IS NOT TO SAY THAT COOPS ARE SUITABLE FOR EVERY DEVELOPMENT OPPORTUNITY, FOR THERE ARE SOME POTENTIAL LIMITATIONS ASSOCIATED WITH THE COOP PRODUCT

WEAKNESSES ASSOCIATED WITH THE THREE DIMENSIONS OF COOPERATIVES

At The Business Level

Local Capital Formation
- Dispersed ownership may make coops less attractive to financial markets
- Available equity base usually small
- Dependence on government financing brings unwanted public image

Motivational Edge
- Difficult to measure
- Hard to sustain
- Mixed evidence regarding productivity enhancement

Volunteerism
- Slower decision-making
- Turnover requires ongoing education and training
- Limited management skills

At The Membership Level

Objective Function De-emphasizes Profits
- Balancing profit against other membership interests can lead to protracted debate

Returns Tied To Patronage
- Minimum scale of enterprise necessary to provide the benefits that will encourage membership may not be available in small communities
- Limits potential for passive equity participation

Democratic Governance
- Bias to conflict avoidance can frustrate change process
- Instilling cooperative approach takes time and may hamper rapid response to transient opportunity

At The Community Level

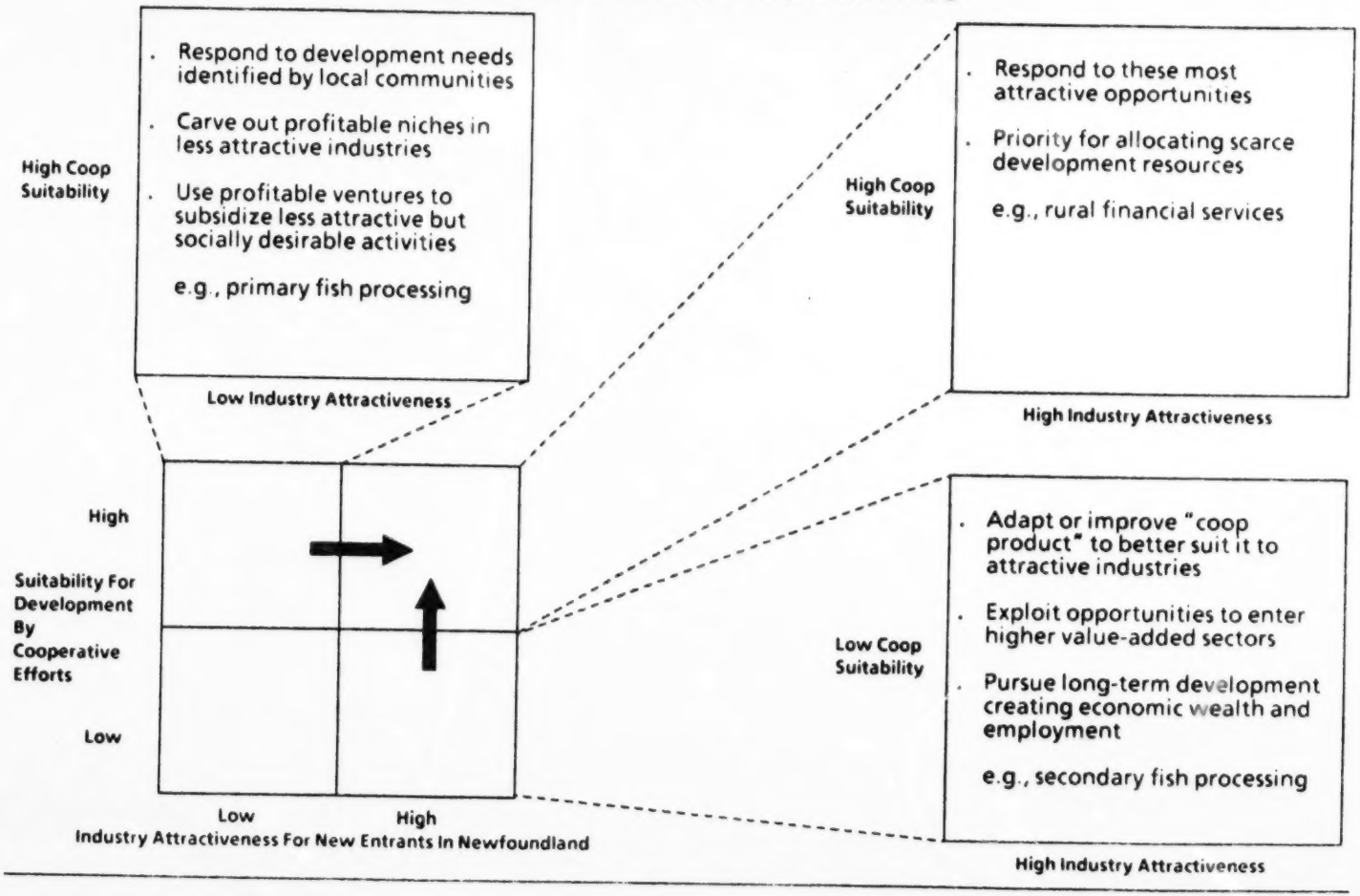
Cross-Subsidization of Social Good Works
- Unwillingness to differentiate businesses and identify uneconomic activities may frustrate management of overall enterprise

Local Control and Multiplier Benefits
- Difficult to measure
- Some communities do not want control and responsibility
- Many external variables inevitably beyond control of any owner-manager, community or otherwise

Can Bring Communities Together
- Togetherness often a result of mutual need, not coop per se
- Once crisis passes, parochial attitudes may re-emerge

NONETHELESS, COOPS ARE FLEXIBLE ENOUGH TO BOTH CARVE OUT NICHES IN LESS ATTRACTIVE INDUSTRIES AND EXPLOIT OPPORTUNITIES IN MORE ATTRACTIVE INDUSTRIES

IMPLICATIONS FOR DEVELOPMENT STRATEGY


. Respond to development needs identified by local communities
. Carve out profitable niches in less attractive industries
. Use profitable ventures to subsidize less attractive but socially desirable activities
e.g., primary fish processing
High Coop Suitability
Low Industry Attractiveness
. Respond to these most attractive opportunities
. Priority for allocating scarce development resources
e.g., rural financial services
High Coop Suitability
High Industry Attractiveness
High
Suitability For Development By Cooperative Efforts
Low
Low
High
Industry Attractiveness For New Entrants In Newfoundland
. Adapt or improve "coop product" to better suit it to attractive industries
. Exploit opportunities to enter higher value-added sectors
. Pursue long-term development creating economic wealth and employment
e.g., secondary fish processing
Low Coop Suitability
High Industry Attractiveness

3. GOVERNMENT SUPPORT HAS BEEN IMPORTANT TO COOPERATIVE DEVELOPMENT

Government support to cooperative development has been small in relative and absolute dollar terms

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However, government has been extremely important to the development of coops and credit unions on many fronts, both directly and indirectly through local communities

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Furthermore, concerns regarding over-dependence on government are not persuasive, given that urbanization and improved transportation also contributed to the decline in the number of coops in the 1960s

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Overall, government assistance has been effective, spurring recent growth of credit unions and housing coops, and spawning new types of coops

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The federal government provides no direct support for cooperative development in any of the provinces

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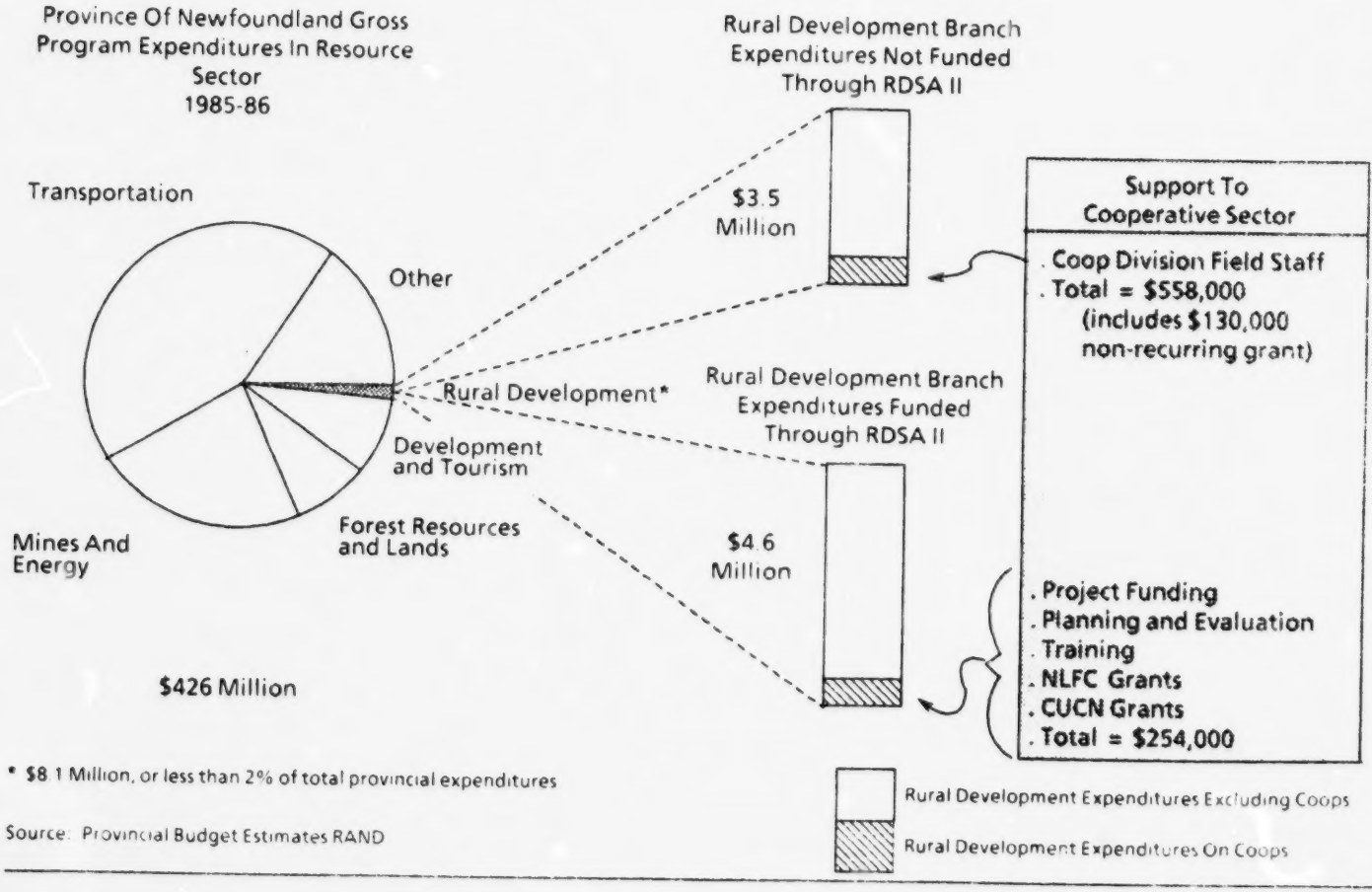
GOVERNMENT SUPPORT TO COOPERATIVE DEVELOPMENT HAS BEEN SMALL IN RELATIVE AND ABSOLUTE DOLLAR TERMS

COOPERATIVES' SHARE OF GOVERNMENT SPENDING IN RESOURCE SECTOR 1985-86


Province Of Newfoundland Gross Program Expenditures In Resource Sector 1985-86
Transportation
Other
Rural Development*
Development and Tourism
Forest Resources and Lands
Mines And Energy
$426 Million
Rural Development Branch Expenditures Not Funded Through RDSA II
$3.5 Million
Rural Development Branch Expenditures Funded Through RDSA II
$4.6 Million
Support To Cooperative Sector
. Coop Division Field Staff
. Total = $558,000 (includes $130,000 non-recurring grant)
. Project Funding
. Planning and Evaluation
. Training
. NLFC Grants
. CUCN Grants
. Total = $254,000
Rural Development Expenditures Excluding Coops
Rural Development Expenditures On Coops

* $8.1 Million, or less than 2% of total provincial expenditures

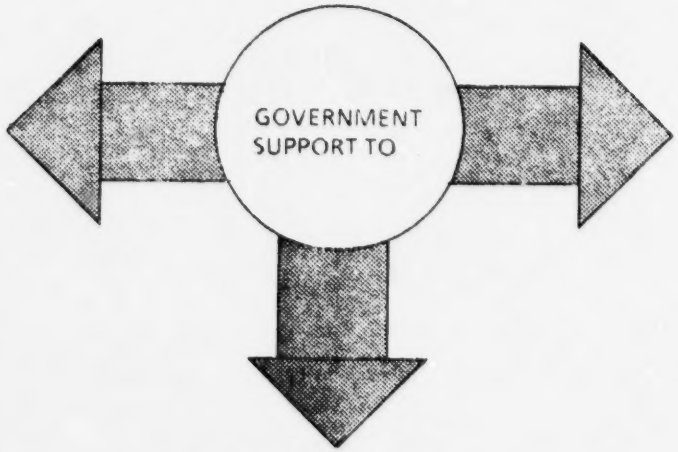
Source: Provincial Budget Estimates RAND

HOWEVER, GOVERNMENT HAS BEEN EXTREMELY IMPORTANT TO THE DEVELOPMENT OF COOPS AND CREDIT UNIONS ON MANY FRONTS, BOTH DIRECTLY AND INDIRECTLY THROUGH LOCAL COMMUNITIES

GOVERNMENT ASSISTANCE TO LOCAL COMMUNITIES AND COOPERATIVE DEVELOPMENT

... Local Communities

- Regional development infrastructure
- Rural Development Council
- Craft association and development funding
- Project funding
- Business and economic development funding
- Training, planning and evaluation grants



... Individual Coops And Credit Unions

- Planning and evaluation grants
- Training grants
- Project funding
- Loan guarantees

... Cooperative Umbrella Organizations

- Basic administrative grants to NLFC and CUCN
- Salaries for development specialists at CUCN and NLFC
- Assistance from Coop Division development staff
- Regulatory troubeshooting
- Research and analysis support
- Revolving fund grant for new credit unions
- Government guarantee for Stabilization Fund
- Various grants under project funding and training programs

FURTHERMORE CONCERNS REGARDING OVER-DEPENDENCE ON GOVERNMENT ARE NOT PERSUASIVE, GIVEN THAT URBANIZATION AND IMPROVED TRANSPORTATION CONTRIBUTED TO THE DECLINE IN THE NUMBER OF COOPS IN THE 1960S

NEWFOUNDLAND COOPERATIVE HISTORY

POLITICAL ERA

Responsible Government | Commission Government | Smallwood Era | Moores Era | Peckford Era

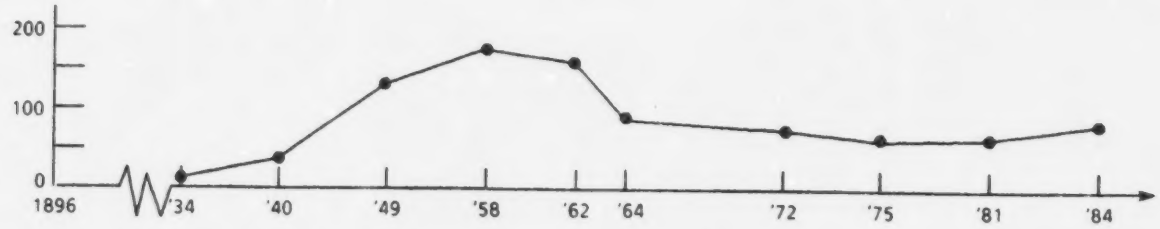
STAGE OF COOPERATIVE DEVELOPMENT

Infancy | Rapid Growth | Decline | Re-emergence

MILESTONES IN COOPERATIVE HISTORY

Digby Report 1934	Coop Societies Act 1939	Nfld. Coop Union 1950	Snowden Report 1965	Nfld. Coop Services 1967	White Paper 1972	Credit Union Council 1977	Coop Division 1981
. Act . Registrar . Field staff	. Registrar stated policy of development . Field staff over 20	. Gov't tries to eliminate dependence of coops on gov't	. Confirms Coop sector dependence on gov't undermines self-help . Gov't abandons developmental role 1962	. Support services to member coops	. Recommends that gov't re-enter development	. Split off from Nfld. Coop Services . Nfld. Coop Services becomes NLFC in 1981	. Coop Division assumes developmental role . Supporting CUCN and NLFC as lead agencies

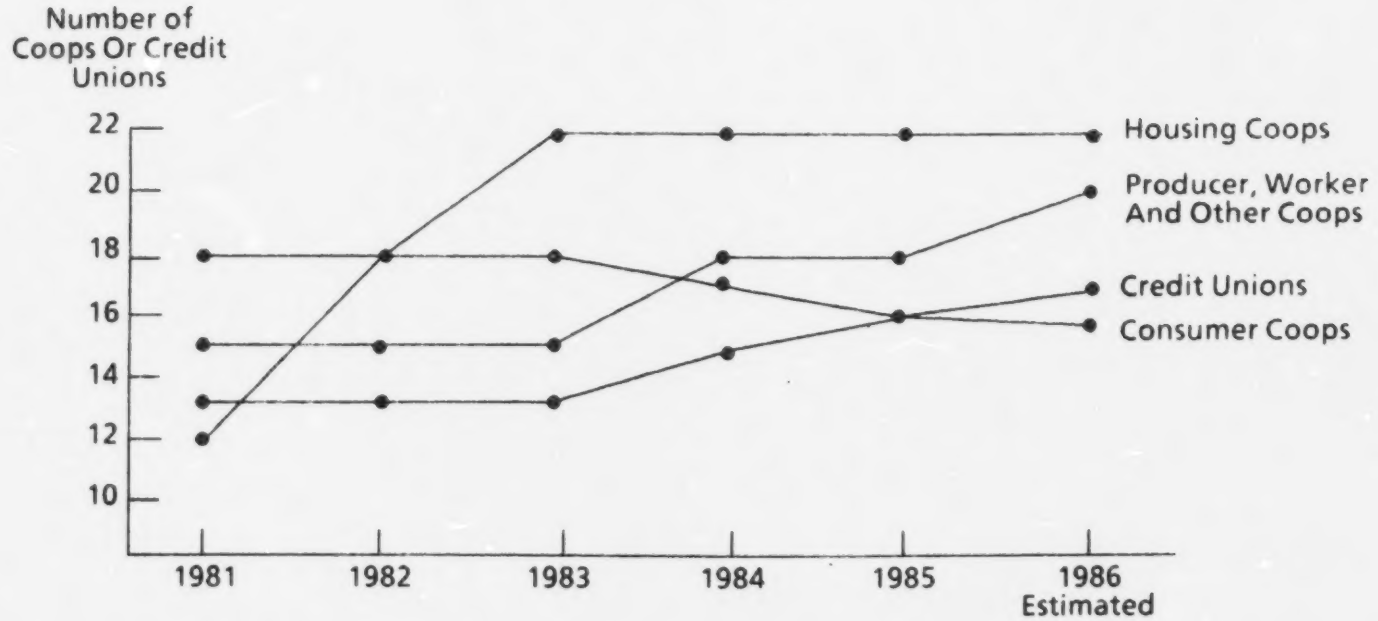
NUMBER OF REGISTERED COOPERATIVES AND CREDIT UNIONS



Source: RAND Memo, 1985, Annual Report of Cooperative Societies

OVERALL, GOVERNMENT ASSITANCE HAS BEEN EFFECTIVE, SPURRING RECENT GROWTH OF CREDIT UNIONS AND HOUSING COOPS, AND SPAWNING NEW TYPES OF COOPS

GROWTH OF COOPS AND CREDIT UNIONS IN NEWFOUNDLAND
1981-1986 Estimated



Source: RAND

THE FEDERAL GOVERNMENT PROVIDES NO DIRECT SUPPORT FOR COOPERATIVE DEVELOPMENT IN ANY OF THE PROVINCES

COOP-RELATED INITIATIVES AT THE FEDERAL LEVEL

The Federal Government has hired a consulting team to draft a response to the May 1984 Task Force Report, which is now being sent to Cabinet for approval

Cooperatives Section of Agriculture Canada, in conjunction with the Cooperative Union of Canada, is undertaking an inventory of worker coops in Canada and using Quebec and Manitoba as case studies, in order to model the pattern of their development

Department of Fisheries and Oceans does not expect to set up a special branch for cooperatives

The CUC is now drafting the terms of reference to establish a trading facilitation unit based on the Task Force's recommendation

THE FEDERAL GOVERNMENT PROVIDES NO DIRECT SUPPORT FOR COOPERATIVE DEVELOPMENT IN ANY OF THE PROVINCES

COOP-RELATED INITIATIVES AT THE FEDERAL LEVEL

As a result of the Task Force, a commission was set up under the Cooperative Sector to examine programs across several ministries looking for programs where coops may have been excluded. Preliminary findings indicate coops are not being discriminated against

Within CEIC, job strategy programs remain the most accessible programs for coops that can demonstate they can create jobs. However, the onus is on coops to demonstrate that they are a form of "private" sector enterprise

The CUC's time and energy is now focussed on the merger with the CCC

4. ACROSS CANADA, OTHER PROVINCES HAVE CHOSEN DIFFERENT WAYS TO ORGANIZE AND RESPOND TO THE REGULATION AND DEVELOPMENT NEEDS OF THIER COOPERATIVE SECTORS

Other provincial governments have different approaches as to how they organize for cooperatives; the coop movements in these provinces are usually dominated by sectoral organizations at both the provincial and regional tier

Credit union regulation is managed not only by the provincial governments, but also by the movement itself

Some governments are heavily and visibly involved in coop development on the non-financial side, but are not involved in credit union development

OTHER PROVINCIAL GOVERNMENTS HAVE DIFFERENT APPROACHES AS TO HOW THEY ORGANIZE FOR COOPERATIVES; THE COOP MOVEMENTS IN THESE PROVINCES ARE USUALLY DOMINATED BY SECTORAL ORGANIZATIONS AT BOTH THE PROVINCIAL AND REGIONAL TIER

ORGANIZATION OF COOPERATIVE SECTORS IN OTHER PROVINCES

GOVERNMENT

- Nova Scotia and Quebec have separate ministries responsible for development of cooperatives and regulation of credit unions
- In Manitoba and Saskatchewan, a specific ministry is responsible for coops and credit unions; responsibility for development and regulation is divided between two separate staffs
- In British Columbia, government's role is strictly regulatory and aimed primarily at credit unions

MOVEMENT - Non-Financial Coops

- The strongest movement organizations on the coop side are sectoral and often multi-provincial (e.g., Federated Coops, Coop Atlantic)
- There are no large, strong multi-sector coop movement associations or federations with a significant mandate for development of new coops
- Some multi-sector groups do exist, and new ones are emerging, but their mandate focusses on legislation, education and human resource development activities, and not on developing new coop ventures

OTHER PROVINCIAL GOVERNMENTS HAVE DIFFERENT APPROACHES AS TO HOW THEY ORGANIZE FOR COOPERATIVES; THE COOP MOVEMENTS IN THESE PROVINCES ARE USUALLY DOMINATED BY SECTORAL ORGANIZATIONS AT BOTH THE PROVINCIAL AND REGIONAL TIER

ORGANIZATION OF COOPERATIVE SECTORS IN OTHER PROVINCES

MOVEMENT - Credit Unions

- In all cases credit unions are organized by provincial boundaries, probably the result of provincial legislation and active regulation
- All provinces have centrals offering liquidity and data services and stabilization funds offering deposit insurance, monitoring and other related services
- All the centrals and stabilization funds are self-sufficient through either blanket or specific user-pay assessments, with government assistance limited to loans for specific credit union failures, and then with mixed results
- Self-sufficiency of centrals is not necessarily tied to compulsory membership, evidenced by the Nova Scotia and British Columbia "voluntary membership"
- The norm seems to be for close stabilization fund-central relationships, exemplified by central staff support for stabilization funds and inter-locking Boards of Directors (in only Manitoba are the two Boards mutually independent)

CREDIT UNION REGULATION IS MANAGED NOT ONLY BY THE PROVINCIAL GOVERNMENTS, BUT ALSO BY THE MOVEMENT ITSELF

REGULATION OF COOPERATIVE SECTORS IN OTHER PROVINCES

CREDIT UNIONS

- In all provinces, most credit unions of significant size must have an annual external audit performed by an independent auditor (except Quebec, where Central also performs this function)
- No successful model exists for government subcontracting of its regulatory activities to private firms
- In all provinces, both government and movement have mandates for credit union regulation
  - Movement usually does most of the regulation, with stabilization funds, not centrals, haveing primary responsibility in this regard
  - Government regulatory staff are separate from development staff
  - Only two stabilization funds (Quebec and Saskatchewan) have independent powers of administration
- Government and movement regulatory efforts range from being highly independent of each other (Quebec, Saskatchewan) to movement being highly reliant on government inspectors (Manitoba, Nova Scotia)

CREDIT UNION REGULATION IS MANAGED NOT ONLY BY THE PROVINCIAL GOVERNMENTS, BUT ALSO BY THE MOVEMENT ITSELF

REGULATION OF COOPERATIVE SECTORS IN OTHER PROVINCES

CREDIT UNIONS - (continued)

- Both government and movement conduct audits, ranging from compliance testing and operations analysis to loan portfolio examination, but government tends to be less regular in its coverage of the provincial systems
- All stabilization funds maintain and monitor a financial data base including pertinent data on all credit unions, although government or central personnel may provide the data collection service

NON-FINANCIAL COOPS

- The key regulatory requirement is for an annual, independent external audit
- Many coops buy audit services from their sectoral groups for a fee, e.g., Coop Atlantic

SOME GOVERNMENTS ARE HEAVILY AND VISIBLY INVOLVED IN COOP DEVELOPMENT ON THE NON-FINANCIAL SIDE, BUT ARE NOT INVOLVED IN CREDIT UNION DEVELOPMENT

DEVELOPMENT OF COOPERATIVE SECTORS IN OTHER PROVINCES

NON-FINANCIAL COOPS

- Three provinces (Saskatchewan, Manitoba, Quebec) present models for a strong proactive role in development, including generating awareness and interest and providing assistance at the start-up stage
- Development assistance is primarily in the form of advice and feasibility studies though there is some financial support

Technical Assistance:

- Loan guarantees in Quebec and Manitoba
- Budget financing and loans for feasibility studies in Manitoba

Financial Assistance:

- Director's Training programs in Nova Scotia
- Multi-sectoral counselling and resource groups subsidized by government in Quebec
- Field officers who do feasibility studies in Saskatchewan

II. COOPERATIVE DEVELOPMENT STRATEGY MUST BE BETTER FOCUSED WITH CLEARLY DEFINED ROLES AND REALISTIC PRIORITIES

1. Government's guiding philosophy for supporting cooperatives and credit unions must set the stage for more specific elements of development strategy

2. The cooperative model should be more actively promoted in development efforts, including both business and community level projects with either production or consumption orientations

3. Growth in the coop and credit union sector will be constrained by both desires for quality development, and limits in resources to support these efforts

4. The support network for coop development in Newfoundland must include capabilities in six major areas, encompassing regulation, development and maintenance

5. These key capabilities must be assigned among the various players to achieve the desired focus and depth of effort, and take advantage of natural fit with capabilities and interests

1. GOVERNMENT'S GUIDING PHILOSOPHY FOR SUPPORTING COOPERATIVES AND CREDIT UNIONS MUST SET THE STAGE FOR MORE SPECIFIC ELEMENTS OF DEVELOPMENT STRATEGY

GUIDING PHILOSOPHY

Government should support cooperative development . . .

CONTRIBUTION TO PROVINCIAL ECONOMY	. Recognizing the contribution made by the cooperative sector to the provincial economy, in terms of basic services, employment, value-added and profitability, growth, and competition
THREE DIMENSIONS OF COOPERATIVES	. Because of the three dimensions of coop enterprise and the unique strengths and weaknesses at each of the business, membership and community levels
COMMUNITY INITIATIVE DRIVES COOP DEVELOPMENT	. Expecting significant community initiative in successful coop development process, typically responding to community interests and needs identified independent of government influence
BROAD ROLE IN DEVELOPMENT	. Understanding that cooperatives are neither entirely business ventures nor entirely instruments of community development, and have potential to benefit Newfoundland's development program in projects viable at the business level, and in areas of community need where the business opportunities are marginal
SELECTIVE APPLICATION	. Appreciating that cooperative enterprise as a development tool has some inherent weaknesses, and should be used selectively only when the nature of development opportunities is suited to cooperative efforts

2. THE COOPERATIVE MODEL SHOULD BE MORE ACTIVELY PROMOTED IN DEVELOPMENT EFFORTS, INCLUDING BOTH BUSINESS AND COMMUNITY LEVEL PROJECTS WITH EITHER PRODUCTION OR CONSUMPTION ORIENTATIONS

PRODUCT/MARKET SCOPE

BUSINESS LEVEL AND COMMUNITY LEVEL VIABILITY	. Target the cooperative development model at both opportunities which are feasible at the firm level, and those which are viable based on cost-benefit analysis at the community level
APPROPRIATE EMPHASIS ON EMPLOYMENT AND PRODUCTION	. Do not over-emphasize development of new producer and worker coops, given the generally troubled track record of efforts in problematic production-oriented areas
BALANCED SUPPORT FOR CONSUMPTION OPPORTUNITIES	. Do not under-emphasize further development of cooperatives that deliver consumption oriented benefits, given the successful track record of consumer, housing and credit coops, and the important contribution to the economy made by such consumer-oriented development
INCREASED PROACTIVITY AND PRIORITY SETTING	. Include in the development support process more scouting for coop opportunities, conceiving and targeting of coop development projects in attractive industries, overcoming coop suitability problems through innovative approaches, and in general setting priorities within the opportunity universe along attractiveness and suitability lines
RESPONDING TO COMMUNITY REQUESTS	. Retain some capacity to respond to community requests for development assistance

3. GROWTH IN THE COOP AND CREDIT UNION SECTOR WILL BE CONSTRAINED BY BOTH DESIRES FOR QUALITY DEVELOPMENT, AND LIMITS ON RESOURCES TO SUPPORT THESE EFFORTS

FINANCIAL AND GROWTH GUIDELINES

Controlled Sustainable Growth	Scarce Resources	Separate Thrusts Via NLFC And CUCN
. Newfoundland should meet the demand for more credit union services by enhancing the regulatory capability of the provincial system	. Tight government budgets will limit the amount of additional funds available to support coop development	. Credit unions, as a sector, are the largest attractive coop development opportunity in Newfoundland today
. Growth in non-financial cooperatives can be shaped somewhat by increasing proactivity and priority setting in the development support process	. Government support will only increase gradually, more in response to unambiguous coop development successes than in anticipation of them	. The level of development opportunity and the unique needs of new credit unions legitimize a separate resource group, like CUCN, to support these development efforts
. The province should expect no renaissance in cooperative development: growth will, and should, be gradual	. All players in the development process must focus their efforts and develop networks to leverage scarce resources, avoid overlap and duplication, improve the depth of support (at the expense of some breadth) and generally do more with a limited pool of resources	. Few additional economies of scale or scope could be achieved by merging the NLFC and CUCN, and are certainly offset by a potential loss of CUCN "product" specialization benefits

4. THE SUPPORT NETWORK FOR COOP DEVELOPMENT IN NEWFOUNDLAND MUST INCLUDE CAPABILITIES IN SIX MAJOR AREAS, ENCOMPASSING REGULATION, DEVELOPMENT AND MAINTENANCE

KEY CAPABILITIES

	REGULATION	DEVELOPMENT				MAINTENANCE
		Process Enhancement	Feasibility Support	Technical Resource	Financing	
WHAT	. Administer Act . Approvals . Monitoring . Audit, review, examination . Governance, compliance . Expanded capability required	. Facilitate progression from awareness through interest to trial . More scouting, targetting, innovation and priority setting required	. Lead feasibility study process . Coaching and advice to improve projects and business plans . Know financial markets . Sophistication and credibility	. Access to skills required at startup . Governance and statutory issues . Management and staff training and coop education . Ongoing functional and moral support	. Debt financing . Capital and operating . Fund startup losses . Same as for any new venture . Sensitive to nature, strengths and weaknesses of coops	. Education of directors and management . Lobbying with government . Promotion and communication Established coops and credit unions
WHY	. Integrity of risk-averse credit union system . Lessen anxiety re growth . Depositor confidence key to product market success	. Observed to make development process work . Overcome local development obstacles . Shaping growth towards more attractive and suitable opportunities	. Inconsistent quality here limits access to funds . Also hurts image and product market performance . Visible and significant deficiency in Newfoundland . Recurring type of support required in other provinces	. Overcome local development obstacles . Get through high risk startup phase . Scale economies in specialized skill areas	. Supplement, not displace, member equity capital . Small local capital pools without recourse to passive, "deep-pockets" investors . Reluctant lenders in private financial markets (e.g., banks)	. Mitigate costs associated with turnover and volunteerism . Enhance movement cohesiveness . "Insurance" premium for coop advocacy

5. THESE KEY CAPABILITIES MUST BE ASSIGNED AMONG THE VARIOUS PLAYERS TO ACHIEVE THE DESIRED FOCUS AND DEPTH OF EFFORT, AND TAKE ADVANTAGE OF NATURAL FIT WITH CAPABILITIES AND INTERESTS

BUSINESS UNIT ROLES

	REGULATION	DEVELOPMENT	MAINTENANCE
COOP DIVISION	a) All regulatory functions	b) Feasibility support (Cooperative Projects)	None*
NFLC, CUCN	None	c) Process Enhancement, Feasibility Support (Credit Unions), and Technical Resource	d) All maintenance functions
STABILIZATION FUND	e) Monitoring and approvals	None	None
JOINT	None	f) Financing	None

* No formal role. Ongoing coordination with CUCN and NLFC may, from time to time, include specialized personnel support for maintenance, but only to extent resources available and only when requested by CUCN and NLFC

a) THE COOP DIVISION OF RAND SHOULD BE RESPONSIBLE FOR A MAJOR CENTRALIZED REGULATORY EFFORT

COOP DIVISION ROLE
REGULATION

WHAT	WHY
. Administer act and regulations	. Statutory responsibility
. Approve new credit unions	. Statutory responsibility
. Coordinate approval process, including application requirements, for new credit unions with Stab Fund	. Stab Fund has a legitimate interest in the integrity and health of credit union system
. Execute all regulatory functions, including prescription of and follow up of corrective action: (an all-encompassing role)	. Statutory responsibility . Scale economies from centralized regulation, given current size of credit union system . Improve quality by avoiding hazy boundaries between regulation and other activities
. Provide specialized statutory compliance and governance process services as an indirect support to development and maintenance functions	. Specialized skills in Coop Division can supplement more generalist skills of CUCN and NLFC

a) THE COOP DIVISION OF RAND SHOULD BE RESPONSIBLE FOR A MAJOR CENTRALIZED REGULATORY EFFORT

COOP DIVISION ROLE
REGULATION (continued)

WHAT	WHY
. Conduct regulatory relationship directly with management and directors of individual enterprises	. Management and directors should be responsible for taking action to remedy audit and regulatory deficiencies
. Continue informal communication network with NLFC and CUCN to assist movement with their ongoing development and delivery of maintenance services	. NLFC and CUCN should provide maintenance assistance when requested by management or directors, not by Coop Division
. Coordinate monitoring function with and provide staff support to Stab Fund	. Stab Fund has legitimate interest . Scale economies argue against separate Stab Fund monitoring staff at this time
. Emphasize credit union regulation, deemphasize cooperatives, perhaps with monitoring only in latter case	. Operating complexity and level of exposure create more difficult audit function for credit unions . Most coops easier to regulate through regular monitoring and external audit process

b) ON THE DEVELOPMENT SIDE, THE COOP DIVISION ROLE SHOULD BE LIMITED TO FEASIBILITY SUPPORT FOR NEW COOPERATIVES

COOP DIVISION ROLE

DEVELOPMENT: FEASIBILITY SUPPORT (Cooperative Projects)

WHAT	WHY
. Lead feasibility study process . Conduct viability analyses for smaller projects . Assist in locating sources of funding for feasibility studies of larger projects . Participate in developing terms of reference, monitoring process and evaluating results of outside studies . Critique, coach and advise to improve the quality of projects and business plans . Lend sophistication to and enhance credibility of projects and proposals for financing . Be knowledgeable regarding sources of financing and their eligibilty criteria and approval processes	. Government has some expertise here already (e.g., Research and Analysis Unit), and may be better able to make firm level and community level analysis . In-house capability supplemented with outside expertise on larger projects is most cost effective approach globally . NLFC does not have resources, and does not want this job . Coop Division in better position to identify sources of financing, understand criteria and approval processes . Coop Division can take more independent stand on new projects; NLFC role is to be advocate and sponsor . Some overlap in analytic and judgemental skills with regulatory function may generate economies in training and career development in Coop Division . Feasibility support is a developmental role adopted by some governments in other Canadian provinces

c) THE CUCN AND NLFC SHOULD ACCEPT SOLE RESPONSIBILITY FOR THE PROCESS ENHANCEMENT AND TECHNICAL RESOURCE EFFORTS

NLFC AND CUCN ROLES
DEVELOPMENT: PROCESS ENHANCEMENT

WHAT	WHY
. Facilitate development process progression from awareness through interest to trial - Respond to community requests - "Plant seed" re: need, opportunity - Provide general knowledge re: coops - Inform re: coop experiences elsewhere - Influence community leaders - Sell benefits, attend meetings, answer questions . Develop networks and download responsibilities to leverage scarce resources, creating active roles in development for: - NLFC and CUCN directors - Local coop and credit union directors and management . Actively scout for coop opportunities, put together new projects in attractive industries, seek out innovative approaches, and generally set priorities in a more proactive fashion	. Movement has "lead role" in the development front lines now . Limit government visibility in the early stages of coop development . Movement personnel may be better able to develop effective relationships more quickly . Coop and credit union movement already has a large volunteer network across province that could, if activated, greatly increase process enhancement capability . Movement wants this role . Government does not

c) THE CUCN AND NLFC SHOULD ACCEPT SOLE RESPONSIBILITY FOR THE PROCESS ENHANCEMENT AND TECHNICAL RESOURCE EFFORTS

NLFC AND CUCN ROLES

DEVELOPMENT: FEASIBILITY SUPPORT (CREDIT UNIONS) AND TECHNICAL RESOURCE

WHAT	WHY
Feasibility Support (Credit Unions) . Provide feasibility support services for new credit unions via CUCN	. CUCN has developed a feasibility study product that appears to be effective . No reason for Coop Division to duplicate or displace CUCN efforts, at this time
Technical Resource . Facilitate access to key operational and management skills required at start up of new ventures, e.g. - "How to" kits - Help in locating staff - Advice from NLFC or CUCN staff - Conduit for other outside experts	. CUCN has a base of these specialized skills already . Networking nature of role lessens need for skilled staff in-house, thus fitting resource constraints of NLFC
. Provide general guidance on governance and statutory issues, supported by Coop Division specialists	. Best performed by same groups involved in process movement
. Coordinate functional and coop training for management, staff, directors and members of new coops and credit unions	. Elements of network may include other players in coop movement - NLFC and CUCN directors - Directors and management of established coops and credit unions - Coop Atlantic, Nova Scotia Central, CCCS
. Be available to provide or gain access to ongoing technical and moral support during critical early stages of development	. Education role similar to maintenance function for established ventures, suggesting potential scale economies

d) THE MOVEMENT UMBRELLA ORGANIZATIONS SHOULD BE RESPONSIBLE FOR DELIVERING MAINTENANCE SERVICES TO MEMBER ENTERPRISES

NLFC AND CUCN ROLES
MAINTENANCE

WHAT	WHY
. Provide or facilitate access to programs for training and educating management, staff, directors and members of existing, established coops and credit unions - Respond to requests from boards and managements of individual organizations - Coordinate with programs already offered by outside groups - Consider regular scheduled program of education to keep abreast of personnel turnover . Continue promotion and communication activities in response to movement demand . Be available to lobby government on behalf of movement interests	. Services received by individual coops and credit unions should be delivered by the umbrella organizations, based on demand . Networking nature of function consistent with limited staff resources of NLFC and CUCN . Outside sources of education and training may often be within coop movement (e.g., Coop Atlantic, Coop College of Canada, CCCS) . Delivery of education and training could be facilitated through coop network in the province (e.g., NLFC and CUCN directors, directors and management of local coops) . Independence of lobbying efforts requires movement funding

e) THE STAB FUND SHOULD BE GIVEN A MORE CLEAR ROLE IN CREDIT UNION APPROVAL AND MONITORING PROCESSES

STAB FUND ROLE
REGULATION: MONITORING AND APPROVALS

WHAT	WHY
. Participate in approval process for new credit unions with Registrar - Jointly determine minimum application requirements - Independently review applications and provide recommendation to Registrar . Conduct independent monitoring of credit union system - Jointly determine monitoring process and information needs with Coop Division - Have clear access to data and staff support from Coop Division - Make decisions and act on monitoring issues independent of Coop Division, coordinating efforts where mutually beneficial	. Stab Fund, as first line of financial distress or solvency funding, has legitimate stake in integrity and health of credit union system . Small size of system and priority need to increase Stab Fund reserve argue against in-house Stab Fund monitoring staff at this time . Stab Fund volunteer board does need some dedicated staff support from Coop Division in order to effectively discharge mandate . Coop Division and Stab Fund monitoring interests are virtually identical, such that clear opportunities for cooperation exist

f) FINANCING IS A KEY CAPABILITY FOR WHICH THE COOP DIVISION, NLFC AND CUCN MUST SHARE RESPONSIBILITY

JOINT ROLE

FINANCING

WHAT	WHY
Coop Division . Advise re: availability and criteria . Act as silent partner and advocate within government circles . Participate on independent board administering Fur Farmers' fund . Administer any Coop Venture Pool that might be created under RDSA III	. Coop Division can be a major expediter of and boost to coop/credit union financing proposals considered by government . While government has accepted its role to pay for development, the Coop division has little money to give out itself, so advisory role is all they can do right now . Too visible an advocacy role by Coop Division might compromise feasibility study "independence"
NLFC and CUCN . CUCN to administer its revolving loan fund . NLFC to participate on independent board administering Fur Farmers' fund . Act as advocate and sponsor for coop and credit union financing proposals to private and government sources	. Government has interest in seeing that Fur Farmers' fund used prudently . CUCN revolving loans in demand and meeting intended purpose . NLFC has legitimate interest in use of Fur Farmers' fund for development . Advocacy and sponsorship role for NLFC and CUCN consistent with process enhancement function

III. THE SUCCESS OF THE COOP DEVELOPMENT STRATEGY WILL DEPEND ON STRONG COLLECTIVE COMMITMENT TO ITS IMPLEMENTATION

1. Resource allocation choices are key to implementation success for development strategy

2. Changing the Coop Division structure and reinvigorating the overall coop support network are key organizational requirements for a successful change process

3. In the end, making strategy work depends on the collective determination and management skills of movement and Coop Division leadership

1. RESOURCE ALLOCATION CHOICES ARE KEY TO IMPLEMENTATION SUCCESS FOR DEVELOPMENT STRATEGY

The cost of the cooperative sector support system must be shared by government and individual coops and credit unions

As a first step to implement the new development strategy, government should fund three new staff positions, one each in the Coop Division, NLFC and CUCN

The NLFC and CUCN should ensure that member assessments are sufficient to fund maintenance activities

The CUCN and NLFC should forget legislating membership fees and instead should focus on providing maintenance services valued and in demand by members

The Fur Farmers' reserve should be used to establish a "Cooperative Development Fund", with objectives, eligibility and adminstrative criteria consistent with the coop development strategy

Continued and increased government support will only be forthcoming if cooperative development efforts generate unambiguous successes

THE COST OF THE COOPERATIVE SECTOR SUPPORT SYSTEM MUST BE SHARED BY GOVERNMENT AND INDIVIDUAL COOPS AND CREDIT UNIONS

WHO SHOULD PAY

	REGULATION	DEVELOPMENT	MAINTENANCE
GOVERNMENT	Government should pay for regulatory activities undertaken by Coop Division	Government should continue to: . pay for development efforts in Coop Division . fund development efforts of NLFC and CUCN . provide development financing	Government should not provide special financing for maintenance efforts of NLFC or CUCN. However, movement should continue to be eligible for funding under non coop-specific government programs that relate to maintenance services (e.g., training grants)
INDIVIDUAL COOPERATIVES AND CREDIT UNIONS	Any attempt at self-regulation (e.g., via Stabilization Fund) should be paid by movement, as should cost of correcting regulatory deficiencies identified by Coop Division or Stab Fund	Individual coops and credit unions should pay to extent of providing member capital, volunteer "sweat equity", and repaying loans received for development purposes	Movement should pay for all maintenance services, including cost of special support provided for maintenance from time to time by Coop Division, if government chooses to charge for these services or recover out-of-pocket costs

AS A FIRST STEP TO IMPLEMENT THE NEW DEVELOPMENT STRATEGY, GOVERNMENT SHOULD FUND THREE NEW STAFF POSITIONS, ONE EACH IN THE COOP DIVISION, NLFC AND CUCN

RECOMMENDED "FIRST STAGE" *STAFFING
(Person Years)

	EXISTING STAFF COMPLEMENTS	RECOMMENDED "FIRST STAGE" STAFF COMPLEMENTS	INTERNAL REALLOCATION	INCREMENTAL STAFF REQUIRED
Coop Division (incl. Coop Analyst) . Registrar . Regulation . Development . Clerical	1 4.5 (estimated) 4.5 (estimated) 2 12	1 7 3 2 13	. Transfer Coop Analyst position to Coop Division . Reallocate 1.5 person years away from development to enhance regulatory capacity	. Add one qualified auditor to supervise and plan regulatory effort
NLFC . Maintenace . Development . Clerical . Total	1 (estimated) 1 (estimated) 1 3	1 2 1 4	None	. Add one person to increase development capacity . Only add maintenance capacity when justified by movement demand and willingness to pay
CUCN . Maintenace . Development . Clerical . Total	½ (estimated) 1½ (estimated) 1 3	½ 2½ 1 4	None	. Add one person to increase development capacity . Only add maintenance capacity when justified by movement demand and willingness to pay

* As the development strategy is implemented and unambiguous successes increase regulatory and development demands, further staff increases will have to be considered

THE NLFC AND CUCN SHOULD ENSURE THAT MEMBER ASSESSMENTS ARE SUFFICIENT TO FUND MAINTENANCE ACTIVITES

RECOMMENDED APPROACH TO SET ANNUAL FEE ASSESSMENTS

Budgeted Costs Of Maintenance Activities...	... Spread Over Assessment Base ...	... Adjusted To Reflect Formula Modifications And Collection Realities...
. Full cost of full time maintenance staff	. Members	. Capping provisions
. Allocated share of part time maintenance staff costs	. Assets	. Nominal fees for coops in financial distress
. Direct costs of non-salary maintenance expenditures	. Profits	. Allowance for non, late or under payment
. Reasonable share of clerical, administrative and office expenses	. Usage	. Recover or reimburse over or under collection in previous years
. Net of grants and subsidies available through existing non coop-specific government programs	. Revenues	. Special discretionary fees where standard fee deemed unfair
	. Base fixed fee for each member organization	. Other
	. Composite formula	
	. Other	

THE CUCN AND NLFC SHOULD FORGET LEGISLATING MEMBERSHIP FEES AND INSTEAD SHOULD FOCUS ON PROVIDING MAINTENANCE SERVICES VALUED AND IN DEMAND BY MEMBERS

Arguments in favour of fee legislation are simply not persuasive, and obscure the urgent need for umbrella organizations to be "market driven" and deliver reasonably priced maintenance services that are important to members

Arguments In Favour of Legislation	Counter Arguments Opposed
. Chicken and egg argument: can't provide better service without more resources	. Should focus on higher priority services and use limited resources to provide them better, gradually building support
. Free-rider problem: all coops and credit unions benefit even if some don't pay	. Very marginal fairness issues: most benefits indirect at best and lost if membership rights were discontinued upon non-payment of fees
. Necessary for continued existence of movement and credibility of NLFC with principals in new coop ventures	. Legislation of fees is no solution for the "product deficiency" problem
	. Won't work in practice - Undemocratic if imposed by edict - No ability to enforce - Politicians won't support without majority movement backing - Tough to legislate a workable formula
. Necessary to get more government support for cooperatives	. Government looking for real effort and commitment, not enforced transfers of funds

THE FUR FARMERS' RESERVE SHOULD BE USED TO ESTABLISH A "COOPERATIVE DEVELOPMENT FUND" WITH OBJECTIVES, ELIGIBILITY AND ADMINISTRATIVE CRITERIA CONSISTENT WITH THE COOP DEVELOPMENT STRATEGY

COOPERATIVE DEVELOPMENT FUND

Fund Objectives And Guiding Principles

- Self-perpetuating
- Loans, no grants
- Scheduled principal payment terms, linked to time (revolving concept)
- Profitability should only accelerate scheduled repayment
- Interest should be charged
  - Paid regularly
  - Cover inflation
  - Include risk premium
  - Cover fund administration
- Loan documentation and security required
- "Movement putting its money where its mouth is"

Eligibility

- Any new coop or credit union development proposal (credit unions only if CUCN fund fully committed)
- New ventures and major development projects of established coops and credit unions
- No sectoral or functional targets
  - Explicit (e.g., fishery, worker)
  - Implicit (e.g., jobs, maximum loans)
- Consumption and production opportunities having equal access
- Case by case assessment based on feasibility and collectibility
- Top up funding to supplement conventional sources
- Not last resort, distress, or highest risk loans

Administration

- Independent board to administer fund and approve lending and collection activities
- Board membership should include
  - Registrar, or designate
  - NLFC appointee
  - CUCN appointee
  - Four non-movement outsiders
- Gradual loan commitment process to balance portfolio, diversify risk and permit prudent risk management. e.g.,
  - Three year (or so) fund release schedule
  - Quarterly or semi-annual approval dates
- Sympathetic but prudent credit management

CONTINUED AND INCREASED GOVERNMENT SUPPORT WILL ONLY BE FORTHCOMING IF COOPERATIVE DEVELOPMENT EFFORTS GENERATE UNAMBIGUOUS SUCCESSES

WISH LIST FOR GOVERNMENT ASSISTANCE, INCLUDING RDSA III

What You Want (In Order of Priority)	How To Get It (You Have to Earn It)
. Continued and more secure funding of development and administrative efforts of CUCN and NLFC, increasing gradually over time	. Generate unambiguous success stories that clearly establish credibility of coop movement in economic development
. Continued and, if possible, increased access to startup financing for new coop and credit union ventures - Grants to increase size of CUCN Revolving Fund - Grants to increase size of Coop Development Fund	. Differentiate cooperative development, in terms of sustainability, success, and contribution to local communities and the provincial economy, in order to address federal and provincial priorities
. More recognition of the unique attributes, pro and con, of the cooperative model imbedded in eligibility criteria for program, business and economic, and training, planning and evaluation programs	. Demonstrate a greater degree of movement cohesiveness and commitment to development, e.g. - Activating the coop director and management network in the province to encourage and enhance local development efforts - Possibly combining CUCN Revolving Fund and Coop Development Fund

2. CHANGING THE COOP DIVISION STRUCTURE AND REINVIGORATING THE OVERALL COOP SUPPORT NETWORK ARE KEY ORGANIZATIONAL REQUIREMENTS FOR A SUCCESSFUL CHANGE PROCESS

The Coop Division should stay within RAND and be clearly separated into regulatory and development teams, integrated at the Registrar/Director level

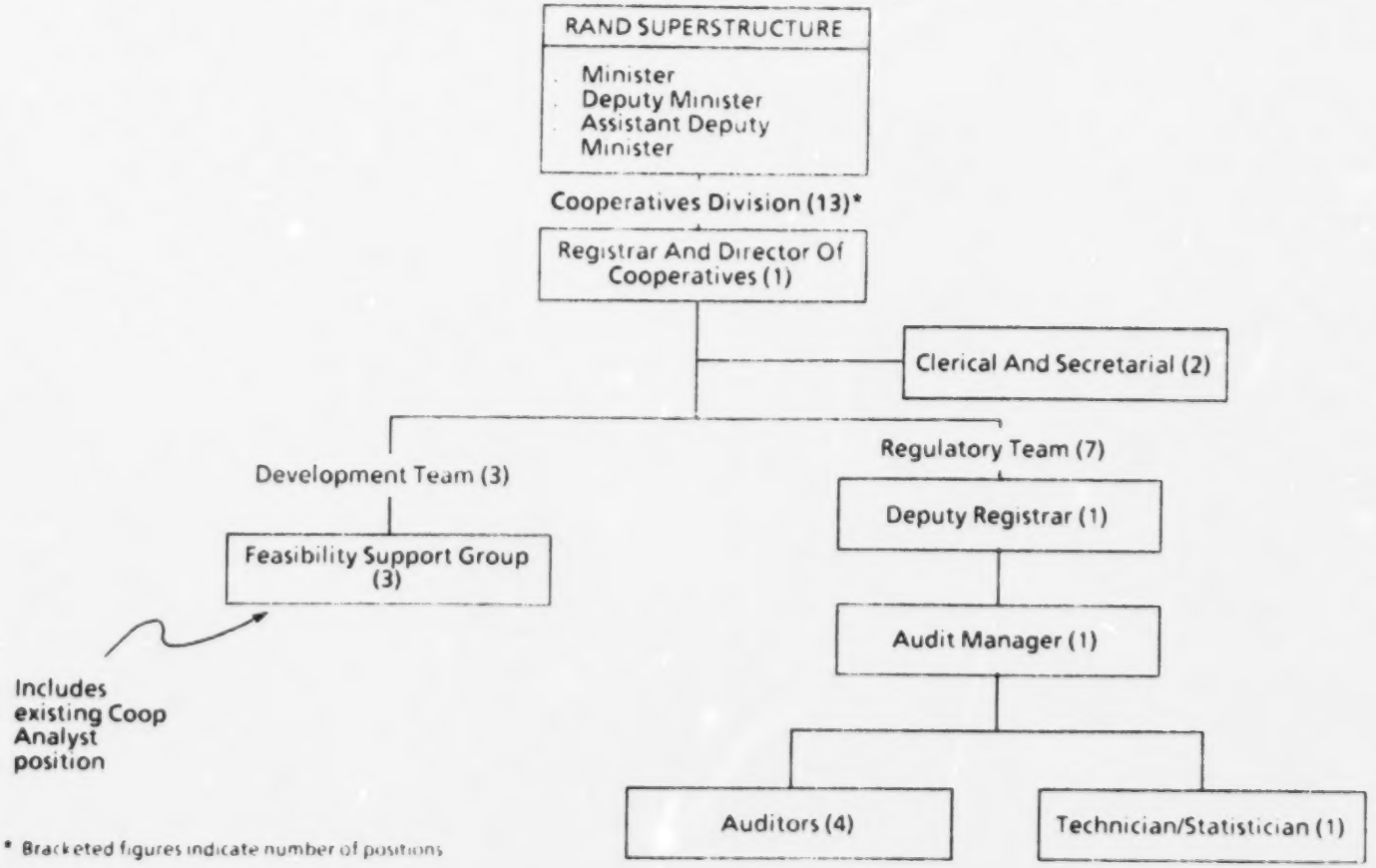
The overall support structure for cooperatives in Newfoundland should continue to be highly interdependent

The Newfoundland cooperative movement already has a considerable network in place which should be activated in support of development through strong leadership

The credit union system should investigate the viability of a liquidity pool, and possibly other related services, in some form of central organization

THE COOP DIVISION SHOULD STAY WITHIN RAND AND BE CLEARLY SEPARATED INTO REGULATORY AND DEVELOPMENT TEAMS, INTEGRATED AT THE REGISTRAR/DIRECTOR LEVEL

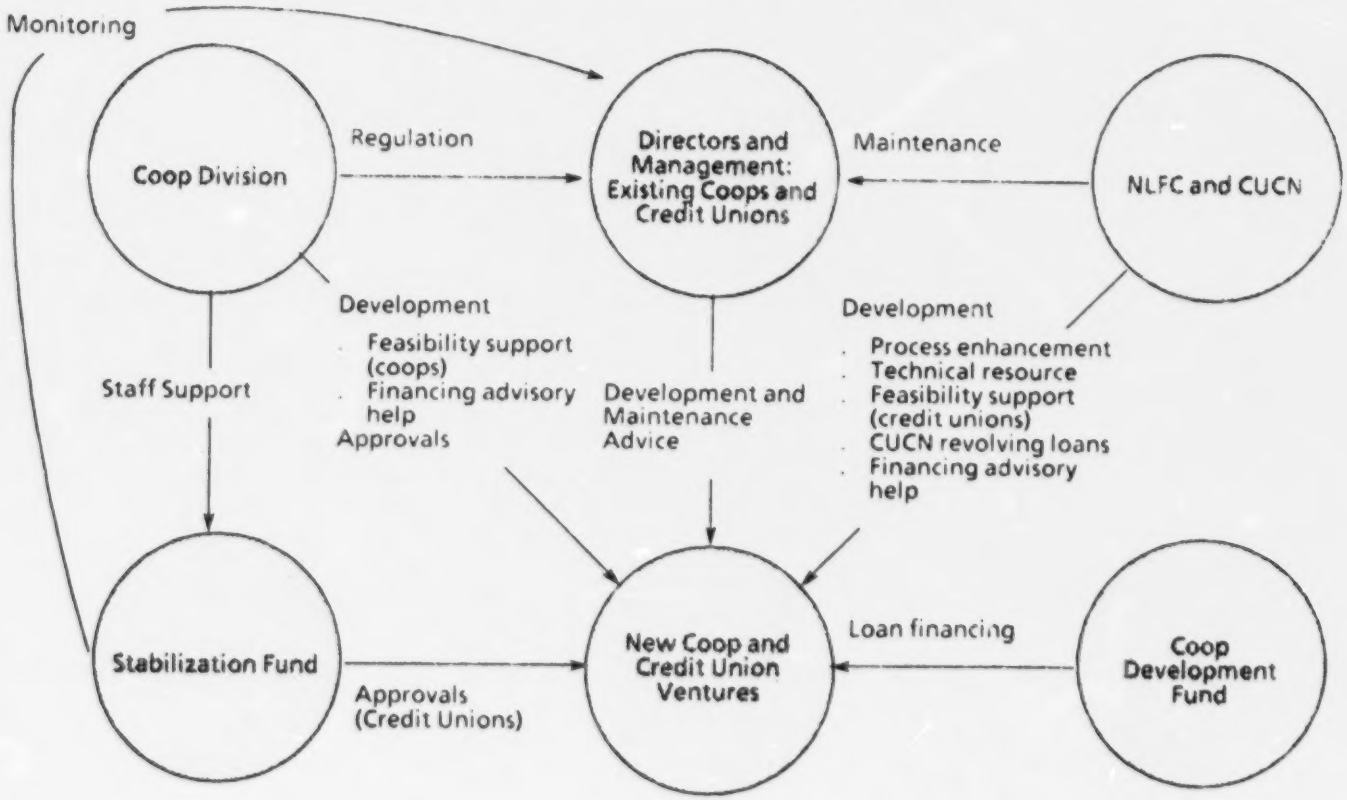
COOPERATIVES DIVISION: PROPOSED ORGANIZATON STRUCTURE



* Bracketed figures indicate number of positions

THE OVERALL SUPPORT STRUCTURE FOR COOPERATIVES IN NEWFOUNDLAND SHOULD CONTINUE TO BE HIGHLY INTERDEPENDENT

COOPERATIVE SECTOR SUPPORT SYSTEM



THE NEWFOUNDLAND COOPERATIVE MOVEMENT ALREADY HAS A CONSIDERABLE NETWORK IN PLACE WHICH SHOULD BE ACTIVATED IN SUPPORT OF DEVELOPMENT THROUGH STRONG LEADERSHIP

ACTIVATING THE COOPERATIVE MOVEMENT DEVELOPMENT NETWORK

Creating Active Roles for Directors Of NLFC and CUCN	Selective Involvement Of Management And Directors Of Existing Coops And Credit Unions	Opportunistic Exploitation Of Regional Development Infrastructure	Coordinating and Accessing Development Resources Of Other "Related Organizations"
Active role a condition of being a director	As members of regional sub-committees	Use infrastructure on limited basis when to coop movement advantage - leads, intelligence - meetings, facilities - access to leaders, doers - good RDAs, not the weak ones - on your terms, not theirs	MUN Extension
Regional assignments	In recognition of unique experience, skills, teaching capability	Avoid reliance - marginal help available - potential resource conflicts - unclear whether image helps, may hurt - coops need to be seen as different from regional development network - don't need them: already have a coop network in place	MUN business program
Responsible for organizing regional sub-committees	On voluntary basis, recognizing interest and commitment		Coop Atlantic
Process enhancement at earliest stages of development	New blood and ideas		CCCS
Scouting opportunities	Leverage scarce CUCN and NLFC personnel		Nova Scotia Central
Leverage scarce NLFC and CUCN personnel			Coop College of Canada
			Other

THE CREDIT UNION SYSTEM SHOULD INVESTIGATE THE VIABILITY OF A LIQUIDITY POOL, AND POSSIBLY OTHER RELATED SERVICES, IN SOME FORM OF CENTRAL ORGANIZATION

We have looked briefly at a liquidity pool concept for Newfoundland, and have provided the Steering Committee with a framework for examining feasibility, and a summary of the key issues to be addressed in any further study

- Access to a central liquidity pool is important for long term credit union development, but is not critical to the establishment of new credit unions in Newfoundland at this time
- Any liquidity pool will have a price, and viability will hinge on three key variables: size of bank margins currently being paid, liquidity pool size, and pool operating costs
- The cost of a pool can be paid for by absorbing these costs into existing profits, creating wealth by reducing the cost of liquidity services, redistributing the cost to members and patrons, or spurring growth in the system that could not otherwise occur
- The potential for adverse competitive action by chartered banks in the face of a growing credit union threat in key markets argues for having considered the liquidity pool issue sooner rather than later, so that retaliatory plans can be "at the ready"
- There are many non-financial issues, both pro and con, which should be addressed in any such viability analysis

3. IN THE END, MAKING STRATEGY WORK DEPENDS ON THE COLLECTIVE DETERMINATION AND MANAGEMENT SKILLS OF MOVEMENT AND COOP DIVISION LEADERSHIP

The next steps in concluding this strategy process are critical to getting all key players onside and to encouraging development in a coordinated and mutually supportive fashion

Without stronger leadership and ongoing coordination at the business unit level, cooperative development in Newfoundland will never reach its full potential

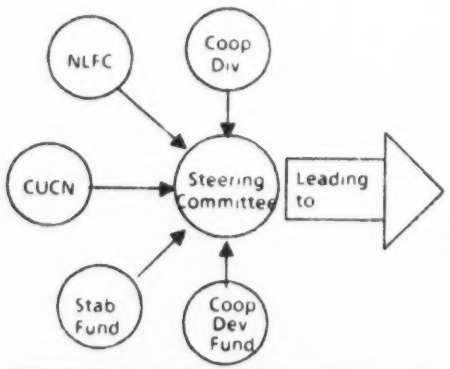
THE NEXT STEPS IN CONCLUDING THIS STRATEGY PROCESS ARE CRITICAL TO GETTING ALL KEY PLAYERS ONSIDE AND TO ENCOURAGING DEVELOPMENT IN A COORDINATED AND MUTUALLY SUPPORTIVE FASHION

NEXT STEPS

COOP DEVELOPMENT STRATEGY PROCESS AND REPORT

What You Do Need Now:

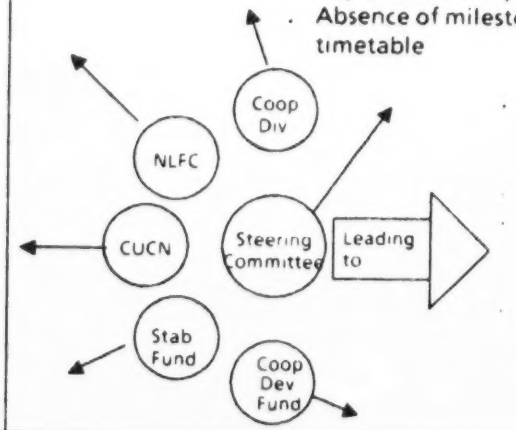
- A coordinated review and evaluation process
- Joint endorsement of a mutually acceptable strategic plan
- Framework for ongoing planning and implementation at business unit level
- Milestones and timetable



- Movement strategic plan
- Process for business unit plans and implementation
- Coordinated, joint, effective change process

What You Don't Need Now:

- Fragmented evaluation and review by each business unit independent of other groups
- Development of individual strategic plans for each business unit on piecemeal, ad hoc basis
- No coordinated business unit plans and no agreement on implementation process
- Absence of milestones and timetable



- Planning process dies on the vine
- No agreement
- No effective change process
- Absence of coordinated joint action

WITHOUT STRONGER LEADERSHIP AND ONGOING COORDINATION AT THE BUSINESS UNIT LEVEL, COOPERATIVE DEVELOPMENT IN NEWFOUNDLAND WILL NEVER REACH ITS FULL POTENTIAL

TWO KEY PIECES TO THE IMPLEMENTATION PUZZLE

Business Unit Plans

- Clarify role boundaries and unit mandates to all concerned
- Establish priorities for scarce resources, when to say no
- Identify key relationships and interdependencies with other units, and determine how these will work
- Assess skill requirements and establish training and human resource development programs
- Create ongoing process, to act as periodic check on overall strategy and to reinforce interdependencies
- Suggest annual process with rotating coordinator assignment

Leadership And Action

- Best available leaders
- Doers, not just coordinators or facilitators
- New ideas, new approaches, new blood where necessary
- Frank dialogue, open, depersonalized, honest constructive criticism
- Confrontation, not avoidance, of problem areas
- Dealing with reality, not the world as we would like it to be
- Assignment of specific tasks and individual accountability for results
- Recognize that your real allies are around this table; no point in looking elsewhere
- Make it happen!